FINANCIAL TIMES

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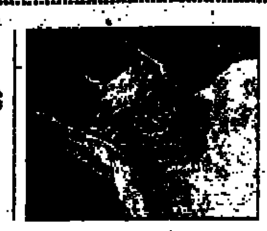

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Nato presses ahead with plans for Kosovo peace force

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EU demands speedier trade talks
The European Union called for a concerted effort to complete membership negotiations with more than 30 countries seeking to join the World Trade Organisation. **World trade, Page 7**

G7 looks at global rules
Proposals for a global committee on financial regulation is to be discussed by finance ministers from the Group of Seven leading industrial countries. **Europe, Page 2**

Output fall threatens Italian budget
Italy's hopes of sticking to its budget programme suffered a setback after it was reported that the country's industrial production fell in December by a seasonally adjusted 6.1 per cent on the previous month. **Europe, Page 2**

Cuba launches crackdown
Cuba's communist government launched a crackdown on political opponents who collaborate with the US government, underlining its hostility to recent modification of the US embargo. **Page 16**

£1.2m fine after tunnel collapse
Engineering company Balfour Beatty was fined £1.2m ($2m) over a rail tunnel collapse at Heathrow airport, London. A £500,000 fine was imposed on Austrian engineering consultancy firm Geoconsult GES, which was monitoring construction. **Britain, Page 9**

Unionists set to oppose deal
Northern Ireland first minister David Trimble looks likely to be opposed by a majority of unionists when the regional assembly votes to ratify power sharing arrangements. **Britain, Page 8**

Japan's trade surplus up 38.7%
Japan's current account surplus rose to a record Y15,861bn ($139bn) in 1998, 38.7 per cent up from a year earlier and the highest since 1985. **Asia-Pacific, Page 4**

Central bank chief indicated
Philippines president Joseph Estrada said Rafael Buenaventura, a former senior official at Citibank, should succeed Gabriel Singson, who is soon to retire as governor of the country's central bank. **Asia-Pacific, Page 4**

Ex-ruler to fight Nigeria poll
Olusegun Obasanjo, Nigeria's former military ruler, won overwhelming backing from his People's Democratic party to contest presidential elections. **International, Page 6**

Olympics sponsor may pull out
Sydney's anxiety about sponsorship of the 2000 Olympics increased after Samsung Electronics of South Korea said it was reconsidering its sponsorship after the Salt Lake City scandal. **International, Page 6**

Radical move on doctors' pay
Top doctors in Britain would be paid by how successfully they treat their patients under radical government plans. **Page 16**

BUSINESS NEWS

Credit Suisse Group in $650m purchase of US fund manager

Credit Suisse Asset Management, owned by the second biggest Swiss bank, announced the $650m acquisition of Warburg Pincus Asset Management, the privately held US mutual fund group. **Companies and Markets, Page 17**

Aerospatiale's path to privatisation has been cleared following agreements on the valuation of the French state-owned aerospace group. **Companies and Markets, Page 17**

Norsk Hydro, Norway's largest industrial group, said falling profitability in three of its core businesses – oil, fertilisers and petrochemicals – had wiped 28 per cent off its 1998 profits. **European companies, Page 18**

DaimlerChrysler, the German-US car group, promised to decide within three months whether to acquire a stake in struggling Japanese carmaker Nissan. **Companies and Markets, Page 17; Observer, Page 15**

Dell Computer, Hewlett-Packard and Applied Materials report quarterly results today and the three US technology bellwether stocks will be closely watched after a sharp decline in technology stocks last week. **US companies, Page 19**

Canon, the Japanese electronics giant, warned that its consolidated net profits would fall 36 per cent this year. **Asia-Pacific companies, Page 20**

Repsol group of Spain has bucked the trend among oil companies by reporting a net profit increase of more than 15 per cent for last year. **European companies, Page 18**

British Biotech's first advanced trial for an anti-cancer agent has failed. **Companies and Markets, Page 17; Comment, Page 21**

ING Barings' new chief executive and one of his senior lieutenants have given up part of their guaranteed bonuses for 1998 to make a reduced pool of money go further. **European companies, Page 18**

Mitsubishi Motors president Katsuhiko Kawasoe is actively seeking a foreign partner for a "business relationship". **Asia-Pacific companies, Page 20**

SEB, one of Scandinavia's largest lenders, is considering selling its non-life insurance operations. **European companies, Page 18**

Philippine Airlines dipped further into the red, leaving the national carrier with an excess of liabilities over assets of more than 5bn pesos ($130m). **Asia-Pacific companies, Page 20**

Barclays, the UK banking group that last week appointed a new chief executive, has lost another senior executive. **UK companies, Page 21**

UPM-Kymmene, the Finnish forestry group, announced a rationalisation programme aimed at saving FM1.2bn (€200m, $228m) a year. **European companies, Page 18**

Feng shui predicts a share of bad luck

By Louise Lucas in Hong Kong

Investors should burrow for cover in the year of the rabbit, which starts today, as *feng shui* experts are predicting a bumpy ride for China's stock market.

Feng shui is reading the runes, Chinese style. It depends heavily on the confluence of key elements, mainly wind and water, and architectural layout.

Unfortunately, the runes appear to be suggesting a rather rocky new lunar year. Credit Lyonnais Securities Asia Global Emerging Markets, which conducted its research among five *feng shui* masters, concludes that the overriding problem is too much fire and wood.

"These two elements cannot co-exist well together: the wood is too bulky and is hard to burn. Unless we have some gold element to break the wood into smaller pieces, the confluence of fire and wood will dry up investment [water] and therefore market liquidity," says Dio Wong at CLSA.

But the unfavourable climate will not last all year. With the mid-autumn festival in September, liquidity is expected to flow back into Hong Kong from the west.

For China, the prognosis is for more consolidation and reform. It is an excellent year for Jiang Zemin, China's president, but the good news loses momentum when the broader picture is assessed. The Dragon, which represents China, is trapped this year, hence Beijing can expect to continue to struggle to consolidate and control the power of the local and provincial governments.

For Hong Kong, where *feng shui* masters are called in along with the architects, the financial nerve centres appear to be completely lacking in harmony this year.

The stock exchange, with its main door facing west and stone-blocked entrance, loses out on all fronts.

"In this year of the rabbit, it is the worst direction with the worst energy," says Master Koon Lung, a *fung shui* expert who will be steering well clear of the stock market this year.

As for the oilrig structure of Hongkong & Shanghai Bank, its *feng shui* is on very shaky ground. This is particularly unfortunate because, as headquarters, its fortunes reflect on the entire group.

Master Koon's verdict for the global banking colossus, with its energy sapped by a southern aspect and an empty ground floor used by all and sundry passing trade, is that money will be "easy come, easy go".

"This is the worst year in finance, especially in Hongkong Bank," he says gloomily.

Elsewhere in the world, US President Bill Clinton is due better *feng shui*; the UK government is predicted to embark on a series of EU wrangles; the Middle East faces warfare; and Japan a weaker second-half economy.

Feng shui throws up several startling numbers: the Japanese yen will see support at Y140 to the dollar, against Y113 currently; and emerging markets in Latin America and South East Asia face at least a luckless six months – with sentiment soured by increasing currency risk.

IRAQI DEPUTY PRIME MINISTER TOLD TO COMPLY WITH UNITED NATIONS DEMANDS BEFORE ANY BACKING TO LIFT SANCTIONS

Turkey rebuffs Iraq over US air bases

Tariq Aziz, left, and Bulent Ecevit before their meeting in Ankara yesterday

By Leyla Boulton in Ankara

Turkey yesterday rebuffed appeals by Tariq Aziz, Iraq's deputy prime minister, to stop US aircraft taking off from a Turkish base to attack targets in Iraq's northern no-fly zone.

Mr Aziz's visit to Ankara at the invitation of Bulent Ecevit, the caretaker prime minister, coincided with Iraqi threats to Saudi Arabia and Kuwait, which allow US and British warplanes to use bases for patrols of the southern no-fly zone. Baghdad said yesterday that attacks by western airplanes in the south killed five people and wounded 22 yesterday.

Turkey and Iraq agreed, however, that Baghdad's international isolation hurt both countries, though neither of them could persuade the other to do anything to end it.

Mr Aziz said the main problem in the two neighbours' relationship was "external interference" by other countries. His comments were a clear reference to the US and Britain, which are using the Incirlik airbase in Turkey, a Nato ally, to launch attacks on Iraqi targets in retaliation for violations of the no-fly zone in northern Iraq.

Mr Aziz said: "If we can get rid of external interference, we can have better understanding and co-operation because Turkey and Iraq are neighbours and friends which have so much in common."

Attacks by the US and UK on targets in the no-fly zones – imposed by the US in the north to protect the Kurds and in the south to protect Shias after the 1991 Gulf war – have become an almost daily occurrence, but Baghdad has pledged to continue defying the exclusion areas.

Mr Ecevit, who had assured Washington before the visit that Iraq could not drive a wedge between Turkey and its Nato allies, said he had urged Baghdad in a "beneficial and friendly meeting" to comply with UN disarmament demands and respect the no-fly zone.

Only when it had started to do so would Turkey be able to help get sanctions lifted. Mr Ecevit told Mr Aziz that every attack launched from Turkish soil by US warplanes had been in self-defence.

But Taha Yassin Ramadan, Iraq's vice-president, said in a radio interview that Bagdad would attack the US base at Incirlik if the raids continued, Associated Press reported.

However, Mr Ecevit said securing Iraq's territorial integrity and the lifting of economic sanctions would "relieve" Turkey more than any other Iraqi neighbour. Turkish officials are worried that if there were a power vacuum in Baghdad, Kurds in northern Iraq could achieve a separate state. That in turn could lead to pressure for Turkish land to be annexed to such a state, officials claim, but western officials see these concerns as far-fetched.

But few dispute Turkey's claims that it has lost $30bn in pipeline revenues since the UN imposed sanctions on exports of oil from Iraq, previously Turkey's second-largest trading partner. Mr Ecevit said Turkey's long-term aim was to restore bilateral trade to past levels.

Ziya Aktas, the Turkish energy minister, said the sanctions constituted "a serious blow to our economy and the region. Since the Iraqis do not have any money they cannot trade freely and we can no longer get oil from the pipeline."

However, according to Ismail Cem, the foreign minister, these concerns took second place to Washington's overriding goal of toppling Saddam Hussein, the Iraqi leader.

Energy investors encouraged, Page 7

Japan bond issue will fund banking reform

By Gillian Tett and Naoko Nakamae in Tokyo

The Japanese government is likely to issue several trillion yen worth of additional government-guaranteed bonds to fund banking reform in the coming weeks, Hakuo Yanagisawa, financial reform minister, indicated yesterday.

The new bonds, which could be worth more than Y7,000bn, ($61bn) would come on top of Tokyo's record net issuance of Y34,000bn of Japanese government bonds in the 1998 fiscal year.

The issue of additional bonds could deal a further blow to JGB markets, which have already seen prices tumble in recent weeks on fears of excess supply.

Sentiment in the market worsened yesterday after the Bank of Japan's announcement last Friday that it would not buy more JGBs, even though it planned to reduce the overnight market rates to a historic low of 0.15 per cent. The yield on the 10-year benchmark JGB closed at 2.14 per cent yesterday, 0.6 percentage points up from the close on Friday.

Jeffrey Young, analyst at Salomon Smith Barney in Tokyo, said: "If the [government] has to raise more money to finance the recapitalisation of the banking sector ... there's a potential for a sharp sell-off in the bond market."

Last Friday the Financial Reconstruction Committee, the government body charged with implementing banking reform, reported that the largest banks had asked for a Y7,450bn injection of public funds.

The FRC had hoped these injections would come from Bank of Japan loans to the Deposit Insurance Corporation, another government body that funds bank reform. However, the Bank has recently opposed this plan because it fears extending loans to the DIC would undermine its credibility as a central bank.

Mr Yanagisawa, chairman of the FRC, yesterday stressed that "it was up to the DIC" to decide the final details of how it would fund the bank reform. However, he admitted "it will be difficult for [the DIC] to borrow the whole amount from the Bank".

"I think the DIC will be forced to consider raising most of the funds from the market," he added. "From our point of view we would like the option which has the lower funding costs. That would probably be Bank of Japan loans."

Signs of cheer, Page 4

WORLD MARKETS

STOCK MARKET INDICES		
Europe and Far East		
CAC40	4065.19	(+4.83)
DAX	4979.55	(-9.19)
FTSE 100	6023.2	(+72.5)
FTSE Eurotop300	1201.04	(+0.68)
Nikkei	14054.72	(+81.03)
OTHER RATES		
UK: 3-mo Interbank	5 9/16%	(same)
UK: 10 yr Gilt	134.69	(135.0)
BBA Euro Libor	3	(same)
France: 10 yr OAT	135.74	(136.49)
Germany: 10 yr Bond	106.24	(106.84)
Japan: 10 yr JGB	97.34	(97.795)

NORTH SEA OIL (Argus)		
Brent Dated	$10.295	(10.305)
GOLD		
London:	$289.5	(289.95)
STERLING		
$	1.6285	(1.6294)
€	1.4493	(1.4449)
SFr	2.3155	(2.3065)
Y	189.127	(186.249)
Tokyo close		
$	Y 114.05	
EURO (London)		
£	0.69	(0.6921)
$	1.1297	(1.1278)
Yen	129.81	(128.913)

New York: markets closed yesterday.

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WORLD NEWS
EUROPE

Nato forges ahead with Kosovo plans

By David Buchan in Paris

Nato yesterday forged ahead with plans to deploy an advance guard of peace-keepers in Kosovo within days of a possible peace agreement, despite Serbia's renewed insistence that such a force on its territory would be unnecessary.

Nato military commanders at Mons in Belgium held a "force generation" conference to match needs with troops offers by alliance members.

Their first task is to have the first elements of an 8,000-10,000 "enabling force" ready to enter Kosovo very shortly after the Saturday noon deadline for the peace talks between Serbs and Albanians at Rambouillet.

The eventual force would total nearly 30,000, and might include troops from countries outside Nato, such as Russia.

But, as Igor Ivanov, the Russian foreign minister, stressed yesterday after a meeting with the Rambouillet negotiators, any such force would have to have the agreement of the Serbian and Yugoslav leadership. Milan Milutinovic, the Serbian president, later reiterated Belgrade's objections to a peacekeeping force, saying that "if we reach an agreement acceptable to the entire population [of Kosovo], then we will not need foreign troops".

This flew in the face of last weekend's comment by Madeleine Albright, the US secretary of state, that "an agreement without a strong international presence is no agreement at all". She also blamed the Serbs for slowing down the talks last week, as did Robin Cook, the UK foreign secretary, who is co-chairing the Rambouillet talks with his French counterpart, Hubert Védrine.

Some French diplomats have since criticised an alleged Anglo-American bias against the Serbs and favouritism towards the Albanians. Mrs Albright said the Albanian negotiators had given her "an indication, though not a promise" that they would sign a peace deal by Saturday.

The first elements of the Nato "enabling force" could be in Kosovo virtually before the ink is dry on a peace accord, Nato diplomats claimed yesterday. They would come from the French-led force of 1,800 that is just over the border in Macedonia and from the US 24th Marine Expeditionary Unit based on the Nassau troop carrier in the Adriatic. Heavy equipment would come a few days later, from forces in Germany.

Britain yesterday started to send light tanks and armoured cars for shipment from Germany to the northern Greek port of Salonika.

The six-nation Contact Group of mediating countries, which includes the US, said at the weekend it was ready to "devote significant civilian resources" to back peace in Kosovo. But it is already evident that an even higher proportion of this aid will come from the European Union than was the case in the reconstruction of Bosnia.

The European Commission has started to canvass the 15 European Union governments to put up half of €500m ($565m) for a three-year plan, with the other half coming from the EU's own budget. By comparison, the EU pledged $1bn out of its own budget for Bosnia over the past three years, with $768m promised by the US and $550m by the World Bank, although individual EU states have also contributed large amounts in addition.

Brussels would like to get the World Bank involved. However, it recognises this would be hard because Kosovo is not a sovereign country but part of Yugoslavia, which is subject to sanctions that involve it being banned from World Bank membership and credits.

Trade war embroils Yugoslav republics

By Guy Dinmore in Belgrade

Tonnes of bananas imported by Montenegro are rotting in trucks blocked on the border with Serbia as the political power struggle between the two remaining Yugoslav republics develops into an open trade war.

Both republics are considering taking further action that diplomats say threatens to break up what is left of federal Yugoslavia, as well as damaging the peace talks on ending the war in the Serbian province of Kosovo.

Montenegrin officials yesterday accused Serbian officials of blocking over 100 Montenegrin trucks. Most are carrying bananas, coffee and fuel. Around 20 ships were said to be anchored off the Montenegrin port of Bar with goods that importers fear will not reach Serbia.

Belgrade has justified impounding the trucks, saying Montenegro has not paid federal Yugoslav customs duties on imports. Many Serbian firms have re-registered in Montenegro to take advantage of its lower import taxes.

The pro-western Montenegrin government of President Milo Djukanovic refuses to recognise the legitimacy of the Yugoslav government appointed by President Slobodan Milosevic who has accused Mr Djukanovic, his most outspoken critic, of seeking secession from the federation.

Montenegro, a small republic of 650,000 people dwarfed by Serbia to the north, has further angered Belgrade by reopening border crossings with Croatia and offering its territory to Nato as a staging post for a planned peacekeeping force in neighbouring Kosovo.

Diplomats fear the political conflict between Serbia and Montenegro will weaken the hand of the international mediators at the peace talks in France.

The mediators are seeking to persuade leaders of the Kosovo Albanian majority to accept a deal that would give Kosovo substantial autonomy within federal Yugoslavia.

Official sources said Montenegro – Yugoslavia's last outlet to the Adriatic coast – was considering taking retaliatory action against Serbian companies.

The Belgrade leadership is debating whether to sever all financial transactions with Montenegro, a step which would severely damage trade between the two republics.

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R

Bonn fears it may be left to shoulder burden of refugees

German pleas to treat expected Balkans exodus as a European problem are falling on deaf ears. **Emma Tucker** reports

As the talks in France rumble on and a large question mark hangs over peace in Kosovo, the European Union is once again on standby to receive waves of refugees from the Balkans.

This prospect might have been expected to focus the minds of EU interior ministers on plans to develop a shared approach to such influxes. But at a meeting in Berlin last week proposals presented by the European Commission for joint measures on burden-sharing remained deadlocked. France, the UK and Spain refused to budge.

Their stubbornness was intensely galling for Germany, which chaired the meeting. Since the crisis in the former Yugoslavia, Germany has opened its doors to over 350,000 Bosnians – more than all the other EU member states put together. It now fears it would also bear the brunt of any renewed full-scale crisis in Kosovo.

"Germany feels that the rest of Europe is not pulling its weight. It wants its partners to see this as a European problem, not as a German problem," explained one EU diplomat.

At the Berlin meeting Otto Schily, the German interior minister, was diplomatic. He said German proposals to set up a voluntary joint approach to burden-sharing, that would involve other countries taking some of the "displaced persons", had met with "wide approval". But that approval did not get the proposals adopted. Until such countries as France, the UK and Spain are confronted by crises on their own doorsteps, they are unlikely to offer the solidarity that Germany is seeking.

Britain argues it is impossible to define criteria for burden-sharing before a crisis actually happens. It also points out that the UK contributes in other ways, for example its large military presence in the Adriatic and assistance on the ground in the former Yugoslavia. These are factors Germany says would be taken into account under its proposed voluntary approach.

Even if Germany manages to persuade other doubters, it will take just one country to scupper the proposals. The question of temporary protection and burden-sharing falls into the domain of justice and home affairs where all EU decisions are taken by consensus.

This unanimity rule explains why progress in this field has trailed so far behind other developments in Europe. The EU may have launched one currency and scrapped borders for goods, services and people, but it remains locked in the past when it comes to co-operating on matters affecting justice, law, and crime.

The Berlin meeting was typical of the state of affairs in the EU's so-called third-pillar – one of the three areas into which EU decision-making is divided. At the meeting, the joint action on burden-sharing remained deadlocked; and appeals were made to France, Italy and Portugal to ratify protocols without which Europol, the EU's budding police intelligence agency, can do little more than exchange information. In addition a convention on matrimonial law, years in the making, is not yet applicable due to legalistic technicalities.

Not even ratification of the EU's new Amsterdam Treaty – expected to be completed this spring – can be expected to inject life into the EU's justice and home affairs programme. All but the question of visas will remain subject to unanimous decision-making.

Critics say it is time for a radically new approach. This is what many hope for at a special heads of government summit, to be held at Tampere in Finland later this year. There, EU leaders have promised to take a "helicopter view" of the legalistic tangle that is EU policy on justice and home affairs.

"New thinking has to be allowed in to this area," says Friso Roscam Abbing, EU representative for the European Council on Refugees and Exiles.

A Kosovo child waits for lunch in a detention centre in southern Italy Reuters

STABILITY PACT GROWTH FORECASTS CUT

Drop in output sparks Italian budget fears

By James Blitz in Rome

The Italian government's hopes of sticking to its budget stability programme suffered a setback yesterday after it was reported that Italy's industrial production in December had fallen by a seasonally adjusted 6.1 per cent on the previous month.

The sharp fall in production was strongly influenced by technical factors, including the smaller number of days worked by employees in the Christmas month. But economic analysts had been forecasting, at the very worst, a drop of 1.2 per cent in the December figure.

On hearing of the unexpectedly steep drop, many economists immediately revised down their forecasts for economic growth for both 1998 and 1999.

"Whatever the technical factors, the figure shows that employers last month had very low expectations of demand and simply shut down when they could," said Ilaria Fornari, economic analyst at J.P. Morgan in Milan. "For the government to meet its fiscal goals in 1999, there will now have to be a very significant acceleration in growth in the second half of this year."

Some Italian economists warned that the December figure could be "anomalous". Italy's industrial output data has proved notoriously volatile in the past. Several said they would wait to see details of forthcoming Italian business confidence indicators for February before coming to a firmer judgment on the data.

But yesterday's figure was the worst month-on-month drop in industrial output since August 1992. Both J.P. Morgan and Deutsche Bank in Milan reduced their 1998 growth forecasts from 1.5 per cent to 1.4 per cent as a result.

Banca Commerciale Italiana revised its forecast for 1999 growth from 1.9 per cent to 1.7 per cent.

Yesterday's figure will come as a disappointment to the Italian government, which has already come under sharp criticism from the European Commission, the European Union's executive arm, for basing its projected reform of public finances on overly optimistic economic forecasts.

The Italian treasury is still officially forecasting that growth this year will be 2.5 per cent and has told Brussels it will revise this figure down in May, when it publishes a three-year economic plan.

The Treasury continues to forecast that Italy's budget deficit will be 2 per cent of gross domestic product in 1999. But yesterday's data will compound fears that lower growth will mean lower tax receipts, leaving the final budget deficit figure for this year somewhat wide of the mark.

There is no concern that Italy would overshoot the EU stability pact's 3 per cent ceiling. But Italy has made a firm commitment to its European partners that it will have a budget deficit that is 1 per cent of GDP in 2001, and this could be difficult to achieve.

NEWS DIGEST

STATE HEALTH INITIATIVE

First anti-tobacco lawsuit planned in France

The local branch of a state health insurance programme in France said yesterday it planned to file suit against cigarette manufacturers, claiming they were responsible for hundreds of deaths. The lawsuit would be a first in France, where smoking remains widely tolerated and socially acceptable.

The board of the social security office in Saint-Nazaire, a shipbuilding city near Nantes, said in a statement it would sue cigarette manufacturers for damages and interest. It cited "several hundred deaths, including premature deaths" caused by the effects of smoking.

French tobacco officials dismissed the action as "a local attempt to apply American judicial concepts and procedures". "It's totally different in France," said a statement by the Centre of Documentation and Information on Tobacco, claiming that clear warnings about the danger of smoking had been printed on cigarette packs for more than 20 years.

The Saint-Nazaire social security office, known as the Caisse Primaire d'Assurance Maladie, did not specify which tobacco companies would be targeted, but it was expected to announce further details today. French tobacco companies are state-run. **AP, Nantes**

ECONOMIC AND MONETARY UNION

Greenland considers euro

Greenland's political parties have made clear that their country, which enjoys limited home rule under Denmark, may want to switch to the euro if Copenhagen decides to join European economic and monetary union.

The comments were made in the run-up to Greenland's parliamentary elections, which were held yesterday. The ruling Social Democrats were set to remain the largest single party, although early results indicated they could experience a big fall in support.

Greenland was colonised by Denmark more than 250 years ago but has had home-rule since 1979. It left the then European Community in January 1985.

"If it is decided in a referendum that Denmark should be in the euro, I think we will follow immediately," said Jonathan Motzfeldt, prime minister and leader of the Social Democratic party.

Danish finance ministry and central bank spokesmen said it would be difficult but far from inconceivable for Greenland to participate in the euro as a non-EU member.

Poul Nyrup Rasmussen, the Danish prime minister, has said that Denmark will hold a national referendum on joining the euro in due course. **Reuters, Nuuk**

SUPPORT FOR OCALAN

Protester sets himself ablaze

A protester set himself ablaze outside the Greek parliament yesterday during demonstrations in favour of granting political asylum in Greece to Abdullah Ocalan, the Kurdish rebel leader. The demonstrator suffered serious burns to the face and hands.

Greece has refused to offer political asylum to Mr Ocalan, emphatically denying reports he spent time in Greece earlier this month after being turned away from the Netherlands. Mr Ocalan's Kurdistan Workers' party, or PKK, has been fighting Turkish forces since 1984 for autonomy in south-eastern Turkey. More than 37,000 people have been killed in the conflict.

Turkey wants Mr Ocalan's extradition for trial on terrorism charges, which could lead to the death penalty. Mr Ocalan's whereabouts are currently unknown.

A Greek government spokesman said that Greece, along with other European Union countries, was participating in "diplomatic activity in order to find a solution... to the issue concerning the safeguarding of the Kurdish leader's life and dealing with the Kurdish issue". **Reuters, Athens**

France embarks on energy shake-up

By David Owen in Paris

France's National Assembly will today, at last, start debating the bill transposing a European Union directive obliging member states to begin opening their electricity markets into French law.

This milestone will no doubt be welcomed by proponents of liberalisation, keen for the end of the 50-year-old, quasi-monopoly in one of Europe's biggest electricity markets held by Electricité de France (EdF), the state-owned utility that is the continent's biggest power supplier.

But it is unlikely to halt criticism of the way France has handled an important step in progress towards a genuine European single market.

There are a variety of historical and political reasons why Paris was always likely to adopt a cautious approach towards implementing this directive.

For one thing, the decentralising dynamic that liberalisation will set in train runs counter to the country's Jacobin tradition, with its flair for centralised planning. For another, France's dearth of indigenous fossil fuel resources, and the ambitious nuclear build-up it embarked on to make up for it, have ensured that energy is a sensitive subject.

On a political level, meanwhile, the lack of an overall majority for the Socialist party of Lionel Jospin, prime minister, helps to explain the long consultation period that preceded the bill.

Government officials are now confident they have a text that the Socialists' Communist coalition partners will not reject, and is therefore capable of commanding a National Assembly majority. Communist deputies nevertheless warned last week that the current text was "unacceptable".

Acceptable or not, the bill is far from bold. Even Christian Bataille, the Socialist deputy who as rapporteur of the bill will be among the first to speak in the parliamentary debate, acknowledges it could be seen as "prudent and even timid" on

Electricity liberalisation

a European level – although he prefers "prudent, modest but determined".

The government has made little attempt to disguise the instrument's limitations. As the bill's preamble spells out, it intends to limit the opening of the market to the minimum threshold fixed by the directive – about 26 per cent for 1999. This means about 400 customers whose annual electricity consumption exceeds 40GWh should be free to choose their electricity supplier once the bill becomes law.

In another much-criticised proposal, EdF stands to be entrusted with the management of the public network through which electricity is transported, the national grid, hence remaining an integrated company.

One prospective competitor has likened this to allowing an airline to manage the take-off and landing slots at an airport. But government officials argue the technical ability to do the job exists only within EdF. They say the planned regulatory commission will be vested with enough powers to safeguard the system's credibility.

EdF officials argue it would not be in the company's interest to do anything that might give rise to suspicions that it was abusing its position. "It is absolutely not in the interests of EdF that people should imagine that this law has been drawn up exclusively to protect EdF," says François Roussely, the chairman.

Another unwelcome consequence of France's cautious approach is that there is set to be an awkward interim period between February 19, when member states must begin opening their electricity markets, and the date the French law comes into effect. Government officials hope this gap can be kept to a minimum, but Mr Bataille sees October as the most likely month for the bill to be passed.

As things stand, it appears only the biggest consumers – those using 100GWh or more a year – can exploit full benefits of liberalisation from what is, in theory, the first day of the new regime on February 20. Those consuming 40-99GWh may be kept waiting until near the start of the new millennium.

Exchange rate plans shape up as early test

ECB watch

By Wolfgang Münchau in Frankfurt

Next Saturday's Group of Seven meeting in Bonn will be preoccupied with European proposals for an exchange rate policy for the euro, the dollar and the yen.

France, Germany and Japan are the main advocates of a policy to counteract excessive exchange rate movements, while the US administration, the Federal Reserve and the European Central Bank are implacably opposed.

Does the ECB have a formal role in this process? Wim Duisenberg, president of the ECB, said he would attend the G7 meeting to argue against an exchange rate policy. He warned that formal exchange rate bands were neither workable nor consistent with the ECB's price stability goal.

This view is shared by a large majority of central bankers in Europe and the US. Their main argument is that a central bank can either pursue a domestic price stability target or an external exchange rate target, but not both at the same time. At some point down the line, a policy conflict would be inevitable.

The Maastricht Treaty, the legal framework for the euro, puts finance ministers, and not the ECB, in charge of an exchange rate policy. It distinguishes between formal arrangements, such as target zones, which require unanimity among ministers, and less formal arrangements that would require only a qualified majority vote. A less formal arrangement could include a unilateral policy to intervene whenever the euro is deemed to be too strong or too weak.

The ECB does have the right to be consulted in this process, but it is difficult to conceive of any situation in which the ECB would support a formal exchange rate policy regime, irrespective of how such a policy is formulated. Consensus is therefore unlikely. If the ministers decided to go ahead with an exchange rate regime regardless, the ECB would have no legal redress.

What the ECB might be able to do is to sabotage the process later on. The exchange rate policy for the euro, therefore, marks a critical test of how well governments and the ECB will co-operate under economic and monetary union.

Economic indicators for euro-11 countries

	Dec 1998	Nov 1998	Oct 98	Sep 98	Aug 98	Jul 98	97	96
Inflation (annual % change)	0.8	0.9	1.0	1.0	1.2	1.4	1.6†	2.2†
Unemployment (%)	10.8	10.8	10.8	10.9	11.0	11.0	11.6	11.6
Trade (Ecu bn)								
Exports	n/a	n/a	68.7	65.6	58.2	72.6	760.8	667.7
Imports	n/a	n/a	61.4	60.4	49.7	58.9	671.4	594.2
Trade balance	n/a	n/a	7.2	5.2	8.4	13.6	89.4	73.5

Current account (Ecu bn)	Q3 1998	Q2 98	Q1 98	Q4 97	Q3 97
Current account balance	21.8	25.0	12.4	28.6	26.0
As % of GDP	1.5	1.7	0.9	2.0	1.9

Industrial production (%) (3 mo over previous 3 mo)	Sep-Nov/Jun-Aug	Aug-Oct/May-Jul	Jul-Sep/Apr-Jun	Jun-Aug/Mar-May	1997	1996
	0.3	0.5	0.6	0.7	4.1††	0.0††

GDP growth (%)	Q3 1998	Q2 98	Q1 98	Q4 97	97	96
Over same quarter last year	2.7	2.9	3.7	3.1	2.5	1.6

Money supply	Dec 1998	Nov 1998	Oct 98	Sep 98	Aug 98	Jul 98
M3 Annual growth rate (%)	4.5	4.7	5.0	4.5	4.6	5.0

* provisional ** estimated † estimated due to Ireland, for which quarterly index numbers for 1995 and 1996 were used to estimate the monthly ones †† annual % change
Source: Eurostat

Romanian court sentences miners' leader to 18 years

By Joe Cook in Bucharest

The miners' leader who last month led a 10,000-strong march on Bucharest and once spearheaded riots that forced a prime minister from office was yesterday handed an 18-year jail sentence by Romania's supreme court.

Miron Cozma was convicted for undermining the state's authority, a charge arising from his role in the miners' riots in 1991.

While many in Romania will welcome the decision, there is a fear that Mr Cozma will try to cast himself as a martyr in the hope that miners will rally round him once again.

Romanian television reported last night that he had gone into hiding.

Less than a week ago Mr Cozma threatened to call another miners' strike, a move that could both challenge the government politically and affect public finances at a sensitive time.

This week the International Monetary Fund arrived in Bucharest to open negotiations with the government over a new loan agreement. A deal with the IMF is vital to Romania's efforts to avoid defaulting on the $2.9bn of foreign debt service payments due this year.

In reaching its decision, the supreme court reversed the ruling of a lower court which last year reduced the charges against Mr Cozma to public order violations and sentenced him to 18 months in prison. He appealed against the sentences, remaining at liberty.

But Mr Cozma cannot appeal against the supreme court's sentence because of the nature of the charge of undermining the authority of the state. He is liable to immediate arrest.

Last month's march on Bucharest, in which at least 120 people were injured, was the fifth miners' disturbance led by Mr Cozma. In 1990 and 1991 he led coalminers on violent rampages through Bucharest which left several people dead.

During the events in 1991 which brought about yesterday's ruling, miners invaded Parliament, set government buildings on fire and forced Petre Roman, who was then prime minister, out of office.

Mr Cozma and his miners called off last month's march on the capital after tanks and troops were deployed to prevent their advance and Radu Vasile, the prime minister, agreed to hold talks with Mr Cozma.

The march was held to protest against IMF-backed government plans to close 140 lossmaking coal and other mines and in support of a 35 per cent pay rise.

Mr Cozma's influence may also be dented by the suspension from parliament of Vadim Tudor, one of his chief political allies and the leader of the extreme nationalist Greater Romania party.

Mr Tudor was suspended for making allegations about the private life of President Emil Constantinescu in an "open letter" to Mr Cozma and his miners days before they set off for Bucharest.

Miron Cozma faces striking miners last month but has been sentenced for his role in the riots of 1991 AP

RUSSIAN FINANCE FYODOROV SLAMS MANAGEMENT OF IMF FUNDS

Handling of central bank reserves attacked

By John Thornhill and Andrew Jack in Moscow

Boris Fyodorov, Russia's former finance minister, yesterday criticised the way the central bank had managed its hard currency reserves – including International Monetary Fund monies – as far back as 1992.

His comments, which follow this month's revelations about how Russia's central bank channelled billions of dollars through an obscure Jersey-based fund management company called Fimaco, could pose a fresh embarrassment for the government as it attempts to strike a new deal with the IMF.

Separately, Sergei Aleksashenko, the former first deputy chairman of the bank from 1992-94, confirmed that as much as $50bn could have passed through Fimaco's accounts with transfers to and from Moscow amounting to as much as $100m a week.

But he fiercely denied the prosecutor general's accusations that the central bank had acted improperly and said there had been no leakage of capital from the system. "All the sums that went through Fimaco were returned to the central bank down to the last kopeck," he said.

Mr Fyodorov said that soon after becoming finance minister in December 1992 he had questioned Victor Gerashchenko, the central bank chairman, about a $500m transfer to Eurobank, the central bank's Paris-based subsidiary which ran the Fimaco fund. "I was told it was placed in the west with the help of a Paris-based bank." He added that he understood the investment "was losing money".

The former finance minister said he then questioned the terms, instruments and currency structure of the investments but did not receive a satisfactory reply. "When I was finance minister I had huge trouble finding out anything about what Mr Gerashchenko was doing," he said.

In an interview with the FT, Mr Fyodorov suggested the central bank might have been giving business to its subsidiary banks without seeking the best deal for the country.

"It was a good, nice, crony, friendly way of making some commissions," he said. "If you allow your friends based in Paris to form a company and channel relatively large flows through it and collect a certain commission on it – say one-tenth of 1 per cent, or even one-hundredth of one per cent – then those billions of dollars can earn millions.

"The prosecutor general's office should check whether these commissions were returned," he said.

In an interview published on a Russian political website, Mr Aleksashenko argued the central bank had had few qualified staff to run its hard currency reserves until 1995, explaining why it had partly contracted out their management. But he said the central bank had only paid a "minimal commission" to Fimaco.

"All this income of Fimaco was included in Eurobank, which, correspondingly, became the property of the central bank," he said. "There were absolutely no leaks of capital, and there were absolutely no personal accounts in question," he said.

● Victor Chernomyrdin, Russia's former prime minister, confirmed yesterday that he would become a government representative on the board of Gazprom, the giant gas monopoly he used to run. "I am not a bad gasman and I remain a gasman," he said. Mr Chernomyrdin said he was also prepared to represent Russia in talks with the International Monetary Fund in an attempt to win fresh credits. His remarks follow criticisms of the way Yuri Maslyukov, the first deputy prime minister in charge of the economy, has handled the ongoing talks with the fund.

During his time as prime minister, Mr Chernomyrdin was attacked for giving privileged treatment and tax breaks to Gazprom, Russia's richest company. But it is also widely believed in Moscow that during his time in office Mr Chernomyrdin developed a personal chemistry with Michel Camdessus, the head of the IMF, helping to win Russia $19bn of financial support from the Fund.

Telefónica takes grievance to EU

By Tom Burns in Madrid

Juan Villalonga, the chairman of Telefónica, yesterday personally complained to the European Union's competition authorities in the latest move in a worsening dispute between Spain's former telecommunications monopoly and the Spanish government.

Telecommunications liberalisation formally took place throughout the EU last year. But Telefónica says it has been left at a disadvantage by the government's unwillingness to countenance increases in local charges.

In 1997, local calls accounted for about 66 per cent of Telefónica's line usage in Spain but only 10 per cent of its revenues. In contrast, long distance and international calls represented some 24 per cent of Telefónica's Spanish traffic that year and about 42.5 per cent of its earnings.

The imbalance is largely the legacy of strict regulatory guidelines which for years meant Telefónica had to subsidise local calls and line rentals with long distance and international calls.

But the Spanish government was unwilling to rebalance tariffs in the run-up to deregulation because of the inflationary impact of any price increase in local calls. At the time, the government was concerned with inflation figures in order to meet criteria to join the single European currency.

By December last year, when Spain's domestic telecommunications sector was fully deregulated, rebalancing had become such a matter of urgency for Telefónica that the company sent a formal letter alleging unfair practices to Brussels.

Mr Villalonga felt it necessary to raise the issue personally before the EU's competition authorities.

The failure to rebalance tariffs has left Telefónica's long distance business severely exposed to competition from new entrants able to offer substantially cheaper telephone charges. Telefónica lost 10 per cent of its international caller market last year to Retevisión, a second carrier which was launched by a Telecom Italia-led consortium scarcely 12 months ago.

"That is an unheard-of market share for an operator that has just started up," said Javier de la Pinta, Telefónica's senior executive for regulatory affairs. "Mercury in the UK took roughly four years to achieve the business quota that Retevisión has gained in one."

Mr Villalonga was thought likely to point out that France Telecom, a similar former monopoly provider, was authorised to raise its subscription charges substantially last week. The move has allowed the French operator to lower the cost of its international calls by 10 per cent.

In contrast, Telefónica cannot slash prices for its long distance and international users because Madrid's regulator has only allowed a marginal increase in line rental fees.

Slow car sales figures mask national demand

By Haig Simonian, Motor Industry Correspondent

Almost static sales of new cars in western Europe last month masked sharp national differences as falls in demand in the UK and Italy all but offset growth in Germany and France.

Overall sales in the 18 countries monitored by the European Automobile Manufacturers' Association rose by just 0.2 per cent year on year, with demand rising in 13 of the markets tracked.

UK car registrations fell by nearly 22 per cent year on year as the advent of twice yearly registration prefix changes shifted demand patterns.

Under the old system, where the prefix changed in August each year, January was the second most popular month for sales. A move to twice yearly changes in March and September appears to have combined with underlying concerns about the economy to deter British buyers from purchasing new vehicles last month.

Sales in Italy fell by almost 15 per cent. The decline was exaggerated by comparison with January 1998, the last month of an incentive scheme to buy new cars.

The decline in Italian demand was reflected in a much weaker European market share for Fiat, the Italian market leader. Registrations of Fiat group cars dropped by nearly 20 per cent.

The relative strength of the French and German markets benefited carmakers in both countries. Renault's registrations rose by almost 12 per cent on the back of a vibrant home market and demand for new models.

Germany's Volkswagen group recorded the strongest performance, continuing to consolidate its position as Europe's market leader.

VW group sales surged by 17.5 per cent, pushing its European market share to 19.3 per cent – up by almost 3 percentage points compared with January 1998.

West European new car registrations
January 1999

	Volume (Units)	Volume Change(%)	Share (%) Jan 99	Share (%) Jan 98
TOTAL MARKET	1,261,811	+0.2	100.0	100.0
MANUFACTURERS:				
Volkswagen group	243,292	+17.5	19.3	16.4
– Volkswagen	160,882	+27.2	12.8	10.0
– Audi	45,546	+1.9	3.2	3.2
– Seat	29,261	+2.5	2.3	2.3
– Skoda*	12,603	+2.3	1.0	1.0
PSA Peugeot Citroen	146,655	+1.3	11.6	11.5
– Peugeot	88,588	+5.7	7.0	6.7
– Citroen	58,067	−4.6	4.6	4.8
Renault	141,376	+11.7	11.2	10.0
General Motors†	138,795	+0.9	11.2	10.0
– Opel/Vauxhall	132,513	+1.9	10.5	10.3
– Saab**	5,505	−18.9	0.4	0.5
Fiat group##	132,195	−19.5	10.5	13.0
– Fiat	100,398	−21.9	8.0	10.2
– Lancia	14,038	−21.3	1.1	1.4
– Alfa Romeo	17,581	−0.1	1.4	1.4
Ford group†	117,222	−23.1	9.3	12.1
– Ford	115,993	−22.7	9.2	11.9
– Jaguar	1,229	−52.0	0.1	0.2
DaimlerChrysler	69,877	+22.1	5.5	4.5
– Mercedes-Benz	60,000	+21.2	4.8	3.9
– Chrysler	9,877	+27.5	0.8	0.6
BMW group	63,195	−9.5	5.0	5.5
BMW	38,483	+13.2	3.0	2.7
Rover	24,712	−31.0	2.0	2.8
Volvo	21,219	−12.7	1.7	1.9
Nissan	35,191	−6.6	2.8	3.0
Toyota	34,418	−9.8	2.7	3.0
Mazda	19,639	+24.7	1.6	1.3
Honda	16,560	−13.1	1.3	1.5
Mitsubishi	14,851	−3.1	1.2	1.2
Total Japanese	142,707	−1.7	11.3	11.5
Total Korean	34,698	+36.1	2.7	2.0
MARKETS:				
Germany	276,000	+5.5	21.9	20.8
Italy	234,700	−14.6	18.6	21.8
United Kingdom	181,842	−21.6	14.4	18.4
France	156,588	+18.3	12.4	11.0
Spain	82,444	+14.7	6.5	5.7

*VW holds 70 per cent and management control of Skoda.
†Includes cars imported from US and sold in western Europe.
**GM holds 50 per cent and management control of Saab Automobile.
Fiat group includes Lancia, Alfa Romeo, Innocenti, Ferrari and Maserati.
Source: ACEA (European Automobile Manufacturers Association) estimates. Figures are rounded.

CURRENT ACCOUNT RECORD EXPORTS RISE SLIGHTLY ☐ INVESTMENT ABROAD FALLS

Japan surplus grows as imports fall

By Julie Hess in Tokyo

Japan's current account surplus rose to a record Y15,861bn ($139bn) in 1998, 38.7 per cent up from a year earlier and the highest since 1985 when data began being collected under the current calculation method.

The trade surplus for goods during the year was Y15,990bn, up 29.9 per cent year-on-year, with both imports and exports declining.

Imports fell 11.7 per cent because of the poor state of the Japanese economy.

Exports decreased 1.3 per cent, mainly because of the sharp drop in shipments to Asia. Exports to Asia were down 17.9 per cent, but rose 9.2 per cent to the US and 17.5 per cent to Europe.

The December figures, also released yesterday, showed a 13.3 per cent increase in the current account surplus to Y1,460bn and a 10.3 per cent increase in the trade surplus for goods to Y1,560bn.

The capital and financial account recorded a small net inflow for the first time in almost three years, because of a large decrease of Japanese investments, mainly loans and deposits, made abroad.

Opinions remained divided on the future direction of the current account surplus. Peter Morgan, economist at HSBC, said: "The seasonally adjusted three-month moving average of the current account surplus fell further to Y1,310bn, the lowest level in five months.

"This increases the likelihood that the surplus has peaked."

Russell Jones, economist at Lehman Brothers, disagreed: "The change in the current account balance will remain reasonably flat from now on, as the public demand will support imports and the impact of the stronger yen will be felt on exports.

"However, the current account surplus will remain at a worrying level, reaching 3.5 per cent of GDP.

"When public expenditures start to decline, the private demand will not be sufficient to make up for them."

Mr Jones thought that the development of the US economy would be crucial for the level of pressure exerted by the Americans on the Japanese to stimulate their domestic economy.

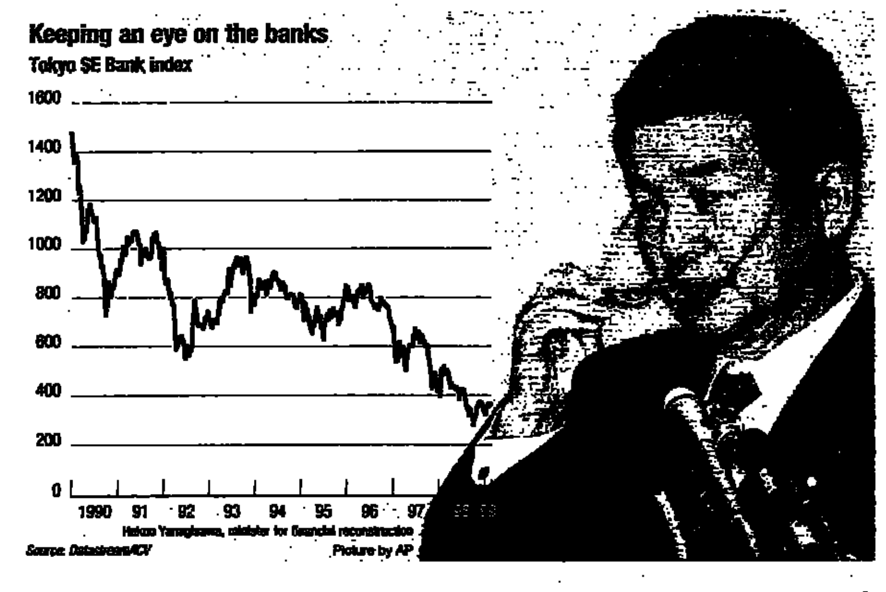
In December, overall imports into Japan fell by 23 per cent, highlighting once more that domestic demand is still far from recovering.

The weak nature of Japan's economy was underlined yesterday by data showing the amount of total debts among companies filing for bankruptcy in January.

Total debts reached a record high with an increase of 9.8 per cent to Y752.8bn, the private credit research agency Teikoku Databank reported.

The number of corporate bankruptcies fell 33.2 per cent to 1,003 cases, the third consecutive month of decline. However, Teikoku said the improvement would only be temporary, given that the expansion of public loan guarantees since last October was the main reason for the fall in bankruptcies.

Signs of cheer point to end of debt nightmare



Hakuo Yanagisawa, minister for financial reconstruction

Source: Datastream/ICV

Picture by AP

By Gillian Tett in Tokyo

Hakuo Yanagisawa, Japan's minister in charge of financial reform, sat in a freshly decorated office in a Tokyo skyscraper yesterday and grinned.

"Japan's bad loan problems for the largest banks will be completely resolved soon," he declared cheerfully, in the suite that two months ago became the headquarters of the Financial Reconstruction Committee (FRC), a new government body formed to implement banking reform. "We are making progress."

Six months ago, the markets might have dismissed such optimism as empty talk. This week, Mr Yanagisawa's cheer is becoming a little more infectious.

After the FRC declared on Friday that the largest banks had "voluntarily" asked for Y7,450bn ($65bn) of public funds to expand their capital bases, bank shares rallied 1.2 per cent yesterday.

More striking still, some western banks which were fierce critics of Japan's botched attempts at banking reform last year have greeted the plans with pleasure. Brian Waterhouse, analyst at HSBC Securities, the European investment bank, said: "With the government injecting substantial funds to recapitalise the sector, the debt nightmare is coming to an end."

This uncharacteristic optimism stems from two factors. One is the sheer size of the Y60,000bn in funds which the FRC now has at its disposal: in addition to some Y25,000bn that can be injected into the banks' capital base, the FRC can also use up to Y18,000bn to nationalise weak banks.

But the second, more important, shift is that the government seems more determined to face up to the scale of Japan's eight-year-old banking problems. Mr Yanagisawa, 63, a former financial bureaucrat and now a politician, is proving unexpectedly pugnacious in pursuing this agenda.

Though many of the banks have been reluctant to apply for funds, the FRC has privately threatened in recent weeks to declare some insolvent if they do not.

Mr Yanagisawa is insisting that the amount requested by each bank must not only be sufficient to write off its remaining bad loans, but also cover the hidden losses on its equity portfolios.

He has also demanded that the banks submit detailed, credible restructuring plans before receiving the cash.

This stance has already led to a flurry of mergers and alliances, and prompted several large banks such as Daiwa to announce their withdrawal from overseas markets.

But the FRC has warned that some banks will need to take even more radical steps. Though Mr Yanagisawa refuses to comment on any individual banks, he insists: "We will be monitoring closely the restructuring plans" in the weeks ahead.

It remains to be seen whether this "restructuring" will prove as sweeping in practice as it sounds in theory. Mr Yanagisawa admits there are "some possible" risks that more bad loans could emerge in the system because of the current economic slowdown, or problems in overseas markets such as China.

However, he acknowledges that the capital injections do not provide any guarantee that the banks will become competitive again soon. "There are several difficulties; one of them is how to get rid of the bubble-era problem loans."

It remains unclear exactly how these funds will be injected into the banks. The banks themselves want to issue non-convertible bonds, to avoid any dilution of their shares.

But the government is pressing some banks to issue convertible preference shares, which could be sold after two years.

But after eight years of ignoring the scale of the banking problems, the emergence of this type of nitty-gritty debate is encouraging.

Mr Yanagisawa may have to wait a while until the outside world shares his optimism. But his activities may yet provide one of the few signs of real reform in Japan this spring.

China's disquiet with court's powers rattles investors in HK

Rahul Jacob reports that Hong Kong's legal officials have been told that a ruling of its highest court must be 'rectified'

Hong Kong's future has long rested on a contradiction. The territory has a constitution, the Basic Law, in which China alternately asserts its sovereignty over Hong Kong and at the same time promises it "a high degree of autonomy".

Hong Kong's secretary for justice, Elsie Leung, had the thankless task over the weekend of urgently resolving that contradiction after a ruling by Hong Kong's Court of Final Appeal that reaffirmed the local judiciary's independence drew sharp criticism from Chinese officials last week.

At the beginning of her two-day visit to Beijing, Ms Leung said she did not intend to change minds, but merely to explain the difference between Hong Kong's and China's legal systems. It was a disturbingly modest goal, given the necessity of defusing the most serious row between China and Hong Kong since it reverted to Chinese rule in July 1997.

But even Ms Leung must be disappointed at having returned empty-handed. She said Chinese officials

The possibility that Beijing may limit the court's jurisdiction has drawn statements of concern

believed passages of the ruling were contradictory to the Basic Law and wanted the ruling "rectified".

The now increasingly real possibility that Beijing will limit the jurisdiction of Hong Kong's highest court had already drawn statements of concern last week from both the US and British governments and the local American Chamber of Commerce.

The Court of Final Appeal's ruling late last month gave mainland children the right of abode in the territory if one of their parents was a Hong Kong resident. In reaching that verdict, the court seized the opportunity to define clearly its primary jurisdiction over Hong Kong.

Yesterday, a lower court further complicated the issue, blocking the deportation of 18 mainland Chinese and allowing them to stay in Hong Kong while they make their case for permanent residence.

China's reputation for arbitrary legal decisions makes an independent court system in Hong Kong something foreign businessmen value more than, say, universal suffrage in the territory. Fund managers and institutional investors have been inquiring about the legal tangle, says a senior executive at a large financial firm, and "a concerted effort to overturn or nullify the ruling would have a harmful effect on confidence" in Hong Kong.

For China, confronted with the conundrum of administering a region whose economic and legal systems are so different from its own, the promise of legal autonomy was always going to be the more difficult one to keep. The former British colony's common law traditions are a world away from the Chinese legal tradition, where the courts defer to the National People's Congress (NPC), China's parliament.

Hong Kong and China speak two very different legal languages on matters such as judicial review, which is at the heart of the recent dispute. Hong Kong's Court of Final Appeal has been excoriated by Chinese legal experts principally for arguing it had the right to disregard laws passed by the NPC if they were inconsistent with administering the Basic Law in Hong Kong.

"The experts thought the court had put itself above the Standing Committee [of the NPC]. But, the court is saying 'The Law is above the Standing Committee'," says Martin Lee, who heads the Democratic party, Hong Kong's leading political party.

In fact, the court in its ruling goes to some length to say its autonomy is authorised by the NPC and that its powers to interpret the law

The court goes to some length to say its autonomy is authorised by the National People's Congress

are derived from China's own constitution.

Stuck in the middle is the Hong Kong government, which has been criticised for not speaking up in defence of the judgment.

Legal experts say the NPC's Standing Committee is unlikely to amend the Basic Law, but will assert in turn its right to interpret it in a way that limits the powers of the Court of Final Appeal. Lau Siu-Kai, a professor of sociology at the Chinese University of Hong Kong, says that China feels it must act because it is alarmed at the prospect of a liberal, activist court in Hong Kong.

If China moves to restrict the jurisdiction of the court, all sides lose, says Mr Lau. "The Court of Final Appeal will lose its prestige. China will be criticised by Britain and the US, and Hong Kong's society will be divided," he says.

Already, the sharp attacks on the judiciary's independence from China have rattled nerves in Hong Kong. A survey last week found that confidence in relations with the mainland had plummeted. The legal dispute is another reminder of the difficult contradiction Hong Kong must always live with.

Philippines president signals choice as central bank governor

By Tony Tassell in Manila

Joseph Estrada, the Philippines president, has signalled his choice of successor to Gabriel Singson, who is soon to retire as governor of the country's central bank.

Mr Estrada said in a weekend speech that Rafael Buenaventura, a highly regarded former senior official at Citibank, "will be our central bank governor".

Although Mr Estrada later modified his statement to say Mr Buenaventura would "most probably" succeed the highly rated Mr Singson when he retires in July, Mr Buenaventura is widely seen in industry and banking circles as the heir apparent.

His appointment would be likely to ease foreign investors' concerns about the successor to Mr Singson, who is widely respected for steering the country's banking system through the Asian economic crisis and overseeing a strengthening of its regulatory framework.

The relative strength of the Philippine banking system compared with many of its stricken peers has been a key factor behind a stronger-than-expected resilience of the country's economy.

Mr Buenaventura, a former classmate of Mr Estrada at Manila's Ateneo University and now president of the PCI Bank group, is one of the most respected bankers in the Philippines with a long domestic and international career.

"He is a very seasoned, highly qualified banker," said Lorenzo Lichuaco, chief representative at HSBC Securities.

In a 24-year career with Citibank, Mr Buenaventura held various positions including division head in charge of southern Europe, regional treasurer for the Asia-Pacific region and country head in Italy, Malaysia, the Philippines and Indonesia.

He joined PCI Bank 10 years ago and under his direction, it became one of the most highly rated banks in the Philippines.

Analysts said the reputation of the bank, however, had been tainted a little since the Asian economic crisis after a rise in non-performing loans, partly due to over-exposure to foreign currency lending.

Alberto Fernix, president of the Philippine Chamber of Commerce and Industry, said Mr Buenaventura's appointment would be seen positively by the business community.

He said he was a professional banker who also had the confidence of the president.

This would reduce the likelihood of disputes between the central bank and the executive branch of government.

Shipley seizes the New Zealand initiative

Terry Hall reports that the prime minister has refurbished her party's image to move up in the opinion polls and wrong-foot the opposition Labour party as the economy has shown an unexpected revival

New Zealand's political and economic landscape has changed dramatically as Jenny Shipley, the prime minister, orchestrates a series of far-reaching moves designed to shift the perception of her administration as a bunch of ideologically driven rightwingers to one of a caring centrist party.

The new softer image is paying political dividends. Two political polls at the end of last week showed Mrs Shipley's National party was rapidly overhauling the Labour party in popularity.

The TV-One-Brunton poll showed National had risen six points to 41 points, just one point behind Labour; Mrs Shipley's standing had risen six points to 29 per cent as preferred prime minister, while that of the Labour leader, Helen Clark, had fallen to 19 per cent.

Mrs Shipley's minority government is set to win a vote of confidence when parliament resumes today. Ms Clark admitted as much at the weekend. "I don't think anyone will rat on her," she said.

Helped by a largely unforeseen improvement in the economy, which has raised business and consumer confidence, Mrs Shipley has cleverly exploited the over-confidence shown by the Labour party last year when it seemed it could not lose the next election.

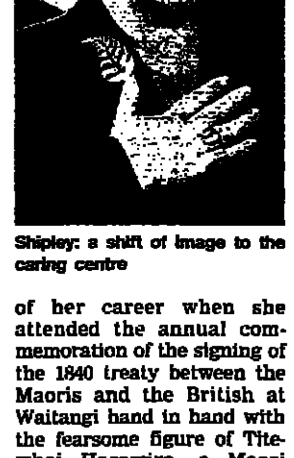
Riding high in opinion polls, Ms Clark unveiled a far-reaching economic recovery plan pitched at voters in a recession-hit economy. This included raising taxes for those earning over NZ$60,000 (US$33,000) to help fund a series of new education, pro-business and other initiatives.

Now it seems Labour jumped too soon. The improving economy has enabled Mrs Shipley to say the National party must be re-elected to keep the "economy in safe hands". She has moved decisively and effectively to end perceptions of the party as a tired lame duck administration, and portray Labour as a high taxation, meddling socialist party.

In a frenetic burst of activity over the past five weeks, Mrs Shipley has made two world tours and been photographed with world leaders including President Clinton while taking a hands-on approach to organising this year's Asia-Pacific Economic Co-operation summit meeting in Auckland.

Domestically, she has carefully nurtured relationships with an odd mixture of small parties and dissidents from other parties. It is now commonly accepted they will support her minority government until she is ready to call an election later this year – at a time of her own choosing.

To win re-election, Mrs Shipley must secure the support of Maori voters and last weekend she secured one of the greatest political coups of her career when she attended the annual commemoration of the signing of the 1840 treaty between the Maoris and the British at Waitangi hand in hand with the fearsome figure of Titewhai Harawira, a Maori woman radical.



Shipley: a shift of image to the caring centre

Labour had been counting on winning back all the Maori parliamentary seats it lost in the last election and must be concerned at signs of any warming in National's standing among Maori people, now a formidable voting force.

The National party has also been remarkably lucky with a non-stop run of good economic news since mid-December. Helped by the devaluation of the New Zealand dollar, overseas trade figures are showing a marked improvement. Interest rates have halved in 12 months, bolstering consumer confidence.

GDP figures showed a sharp turnaround late last year. Latest retail and house sales, and a sudden growth in job advertisements, suggest an economy in recovery mode. Inflation seems beaten with the consumer price index falling to minus 0.5 per cent in the December quarter.

Last month the Treasury announced that tax revenues, and its books, were in better shape than it had predicted.

Mrs Shipley pounced. She highlighted the expectation that New Zealand would have a budget surplus, rather than a deficit this year, and telegraphed that tax would be a defining issue at the elections. National might soon be able to announce a programme of further tax cuts, she promised.

Michael Cullen, Labour's finance spokesman, responded by sticking to last year's agenda, saying his party would go ahead with raising the top rate of tax although he said there would be no increases in other taxes.

Mrs Shipley has kept up a cracking pace of other initiatives over the past month. This includes a cabinet reshuffle which saw the promotion of younger ministers said to know how to put a "human gloss" on government in this election year. There will be more popular issues of shares in state-owned enterprises, government help for small business, and action on law and order, education and health.

All this seems to have left the opposition wrong-footed. Richard Prebble, a veteran parliamentarian who now leads the ACT political party, says he has never seen Labour fall asleep the way it has recently.

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

	■ UNITED STATES					■ JAPAN					■ GERMANY				
	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1989	115.5	112.7	5.2	97.9	100.1	132.6	125.1	2.2	146.3	102.0	111.9	116.5	5.6	219.6	96.3
1990	116.2	112.4	5.5	82.7	93.5	141.6	130.1	2.1	149.8	99.5	119.7	122.7	4.8	261.6	97.5
1991	113.3	110.2	6.8	61.7	96.2	144.5	132.5	2.1	144.2	94.9	125.0	125.0	4.2	297.9	94.9
1992	117.0	113.6	7.4	61.8	103.5	139.7	124.4	2.1	124.2	90.7	122.8	123.2	7.7	287.9	88.0
1993	122.2	117.6	6.8	67.7	107.1	131.7	119.5	2.5	105.8	92.0	119.7	115.1	7.9	229.0	93.0
1994	129.2	123.9	6.0	79.0	113.6	129.4	120.5	2.9	102.3	95.9	117.6	120.0	8.4	241.2	101.9
1995	133.3	130.0	5.5	79.3	116.7	128.4	124.6	3.1	106.6	99.2	118.4	120.7	8.2	268.3	97.7
1996	139.3	135.8	5.4	77.0	121.7	132.6	127.5	3.3	119.0	100.4	117.2	120.2	8.9	274.1	101.6
1997	145.1	144.0	4.9	78.9	129.6	132.0	132.1	3.4	123.2	97.3	115.8	123.6	10.0	282.8	109.1
1998		149.4		80.2	130.2		123.0		109.0		115.6	127.8		353.8	106.1
1st qtr.1998	5.1	5.4	4.7	81.7	130.7	-9.0	-3.9	3.6	112.7	98.2	0.0	5.7	10.0	319.1	110.6
2nd qtr.1998	7.6	4.6	4.4	80.4	129.9		-6.5	4.2	107.2	98.0	-2.0	3.4	9.8	363.6	111.0
3rd qtr.1998	5.5	3.0	4.5	80.6	128.2		-8.6	4.2	107.0	96.3	1.3	3.7	9.6	373.3	108.0
4th qtr.1998		2.1		78.1	130.2		-6.7		109.6		0.2	1.0		359.1	106.1
January 1998	4.9	5.9	4.7	79.7	129.5	-1.8	-2.6	3.5	114.3	97.2	0.2	7.8	10.1	302.5	109.7
February	4.9	5.0	4.6	82.3	129.8	-5.2	-3.9	3.6	109.6	96.5	-0.6	5.0	10.0	318.3	110.2
March	5.5	5.1	4.7	83.3	130.7	-18.0	-5.1	3.8	114.3	96.2	0.5	4.3	10.0	336.6	110.6
April	7.0	5.0	4.3	80.4	130.5	10.8	-6.6	4.1	108.7	95.7	-2.0	3.0	9.9	351.6	110.7
May	8.2	5.1	4.3	80.3	130.1		-11.2	4.3	102.1	96.0	-0.9	5.5	9.8	368.3	111.1
June	7.6	3.6	4.5	80.4	129.9		-7.6	4.3	110.7	96.0	-3.2	1.6	9.7	370.8	111.0
July	5.5	2.7	4.6	81.3	129.8		-9.2	4.1	106.5	96.2	2.4	2.8	9.6	369.1	110.6
August	5.1	3.6	4.5	82.2	129.4		-9.2	4.3	109.0	96.0	0.7	5.7	9.6	377.5	109.6
September	6.1	2.6	4.6	78.3	128.2		-7.5	4.3	105.4	96.3	0.7	2.7	9.5	373.3	108.0
October	7.4	2.5	4.6	85.4	128.4		-7.9	4.2	106.5	96.2	-1.9	2.7	9.4	370.0	107.0
November	7.7	2.0	4.4	79.9	128.6		-5.6	4.5	111.4	97.3	3.2	0.7	9.4	361.6	106.5
December 1998		1.9		77.8	130.2		-6.4		110.7		-0.7	-0.4		345.8	106.1

	■ FRANCE					■ ITALY				■ UNITED KINGDOM				
	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1989	108.4	111.1	9.4	161.1	101.5	116.9	118.7	10.0	98.3	111.8	107.3	7.3	123.8	95.1
1990	110.4	112.8	8.9	207.8	94.5	114.4	118.0	9.1	93.7	112.6	107.0	7.1	97.5	91.9
1991	110.2	111.5	9.4	191.2	95.4	118.2	116.9	8.8	97.2	111.0	103.4	8.8	68.4	97.0
1992	110.5	110.1	10.4	202.5	94.3	120.4	115.4	9.0	91.6	111.9	103.8	10.1	69.9	100.5
1993	110.7	105.9	11.7	209.1	99.5	116.8	113.0	10.3	99.2	115.3	106.0	10.4	76.5	106.2
1994	110.6	110.1	12.3	280.7	102.6	109.7	119.9	11.4	104.4	119.5	111.7	9.6	93.7	109.9
1995	110.6	112.4	11.6	350.3	98.7	104.3	127.3	11.9	103.6	121.0	113.7	8.7	106.9	109.3
1996	110.3	112.6	12.3	389.5	102.5	101.8	123.7	12.0	106.4	124.9	114.9	8.2	131.3	112.8
1997	111.4	116.9	12.5	432.9	106.5	108.7	127.1	12.1	114.8	131.5	115.6	7.0	157.8	114.5
1998	114.4			463.0	107.4		128.1		116.2	135.5	116.6		163.2	111.5
1st qtr.1998	2.3	7.2	12.1	476.0	108.9	3.0	3.4	12.1	116.5	4.7	0.0	6.4	154.1	114.0
2nd qtr.1998	3.3	5.5	11.9	462.3	110.7	4.0	1.3	12.3	115.2	3.2	1.3	6.3	162.1	112.7
3rd qtr.1998	2.2	3.3	11.9	454.2	109.7		0.4	12.3	112.4	2.9	0.7	6.2	164.7	110.2
4th qtr.1998	2.9			456.2	107.4		-1.7		118.2	1.4	0.6		171.9	111.5
January 1998	5.8	6.5	12.2	482.5	107.0	2.8	6.5	n.a.	116.1	6.6	-1.0	6.4	153.5	114.5
February	2.0	6.6	12.1	484.6	107.8	3.5	2.4	n.a.	116.4	4.1	-0.4	6.5	158.2	114.2
March	-0.8	8.4	12.0	470.2	108.9	2.6	1.3	n.a.	116.5	3.4	1.3	6.4	159.3	114.0
April	4.0	4.4	11.9	450.1	109.3	3.0	0.7	n.a.	116.4	3.4	1.7	6.3	158.5	113.5
May	1.2	5.8	11.9	476.6	109.9	4.1	2.9	n.a.	115.6	4.4	0.8	6.3	163.4	113.0
June	4.9	6.1	11.8	458.3	110.7	5.0	0.3	n.a.	115.2	1.8	1.5	6.2	164.4	112.7
July	2.9	3.3	11.9	450.1	111.2	3.9	1.5	n.a.	113.8	2.7	0.2	6.3	164.2	112.2
August	2.0	3.3	11.9	468.4	110.7	3.0	-1.6	n.a.	113.0	2.5	1.1	6.2	163.7	111.5
September	1.7	3.1	11.9	446.0	109.7		1.5	n.a.	112.4	3.7	1.0	6.2	166.0	110.2
October	2.9	1.9	11.8	444.0	108.4		1.6	n.a.	112.5	1.1	0.5	6.2	172.1	109.9
November	4.4	4.8	11.8	474.6	108.2		-0.3	n.a.	114.1	2.5	1.1		172.9	110.4
December 1998	1.5			450.1	107.4		-6.3	n.a.	116.2	0.6	0.1		170.7	111.5

All series seasonally adjusted. Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA. Retail sales volume: data from national government sources except Japan and Italy (value series deflated by OECD using CPI). Refers to total retail sales except France and Italy (major outlets only) and Japan (department stores only). Industrial production: data from national government sources. Includes mining, manufacturing, gas, electricity and water supply industries except Japan (mining and manufacturing only) and UK (also includes construction industries). Unemployment rate: OECD standardised rate which adjusts as far as possible for the different definitions of unemployment used in official sources. Vacancy rate indicator: relevant vacancy measure divided by total civilian employment, expressed in index form. Derived from OECD series. US – help-wanted advertising, Japan – new vacancies, Germany and France – all jobs vacant, Italy – no data available, UK – unfilled vacancies. Composite leading indicator: OECD data. Each is a combination of series, cyclical fluctuations in which usually precede cyclical fluctuations in general economic activity.

WASHINGTON POLITICS BOTH PARTIES TRY TO CALCULATE THE LONGER-TERM EFFECTS OF THE BITTER PARTISAN BATTLE

Still impeachment scars on body politic

By Gerard Baker in Washington

Washington begins the post-impeachment era in earnest today with politicians from both main parties anxiously trying to figure out the immediate and longer-term political consequences.

Following President Bill Clinton's acquittal in the Senate last Friday, many have piously expressed the hope that that they can put the year-long national trauma behind them and focus on debates about future policy rather than investigations into past misconduct.

But for all the talk of reconciliation, few seriously believe the impeachment question will go away. The bitterness it evoked and the battle lines it established indicate that it will remain a potent force in American politics until next year's presidential elections at least.

Appropriately enough, yesterday was Presidents' Day, a federal holiday in which citizens are encouraged to reflect on the contribution to American greatness of two of the more prominent presidents, George Washington and Abraham Lincoln.

The day drew forth one more aspirant to succeed them, as John Kasich, the Republican chairman of the House of Representatives' budget committee, kicked off his long-shot campaign for his party's nomination.

The youthful-looking 46-year-old avoided the obvious subject in announcing his candidacy to supporters in his home district in Columbus, Ohio. Instead, his main pitch focused on what those Republicans who want to get away from the impeachment subject hope will be their quickest route back to salvation – big tax cuts.

Mr Kasich's chances are slim, however, and other conservative candidates have already made it clear they intend to keep the impeachment issue in the forefront of voters' minds. Dan Quayle, the former vice president who hopes to garner a solid portion of the conservative vote, told his supporters that the 2000 election would be all about character and trust.

The electoral facts pose a conundrum for the Republicans. While polls indicate most Americans overwhelmingly disapproved of their determination to impeach and convict Mr Clinton, their conservative base, who vote in massively disproportionate numbers in primary elections, overwhelmingly approved.

Kenneth Starr, the independent prosecutor, and Henry Hyde, the chairman of the House judiciary committee who led the impeachment, have passed quickly into conservative folklore as martyr-heroes of the conservative cause.

Those conservatives will keep the impeachment pot boiling, and even the more moderate candidates, such as George W. Bush, the governor of Texas, should he decide to run, will not be able to disavow the impeachment effort.

And for Democrats the echoes of the last year will ring loud, as they seek to exploit the advantage it has given them in the polls to win back control of Congress and get another Democrat elected to the White House.

Mr Clinton will today and tomorrow begin the task of working on how to make good on his promise last week to promote national reconciliation.

But his advisers say, his efforts will also be animated by the recent memory of impeachment. On Thursday he will travel to New Hampshire, for what has become by now a somewhat clichéd repeat trip to the state where he earned the soubriquet, the "Comeback Kid" in the 1992 primary elections.

The symbolism the visit is intended to evoke is that of a reborn presidency. But it will also serve to remind his opponents that he remains a formidable campaigner.

And while he cannot run again, many of his supporters see the election of Vice President Al Gore as president next year, as tantamount to a "third Clinton term", the only sure way of promoting and protecting Mr Clinton's legacy.

Clintons play it cool on visit to Mexico

By Henry Tricks in Mérida

US President Bill Clinton, on his first foreign trip since acquittal from impeachment last week, spent a visit to Mexico yesterday apparently anxious to conceal any hint of triumph.

His meetings with Ernesto Zedillo, Mexico's president, were shorn of all razzmatazz. On his arrival on Sunday night, thousands of residents in the Mayan city of Mérida, on the south-east Yucatan peninsula, waited for hours in the main square for a wave or a handshake from the man local women called "El Güero Guapo" – the Handsome Paleface.

But Mr Clinton and his wife Hillary sped off under heavy protection in a dark limousine. There were no planned press conferences by either president.

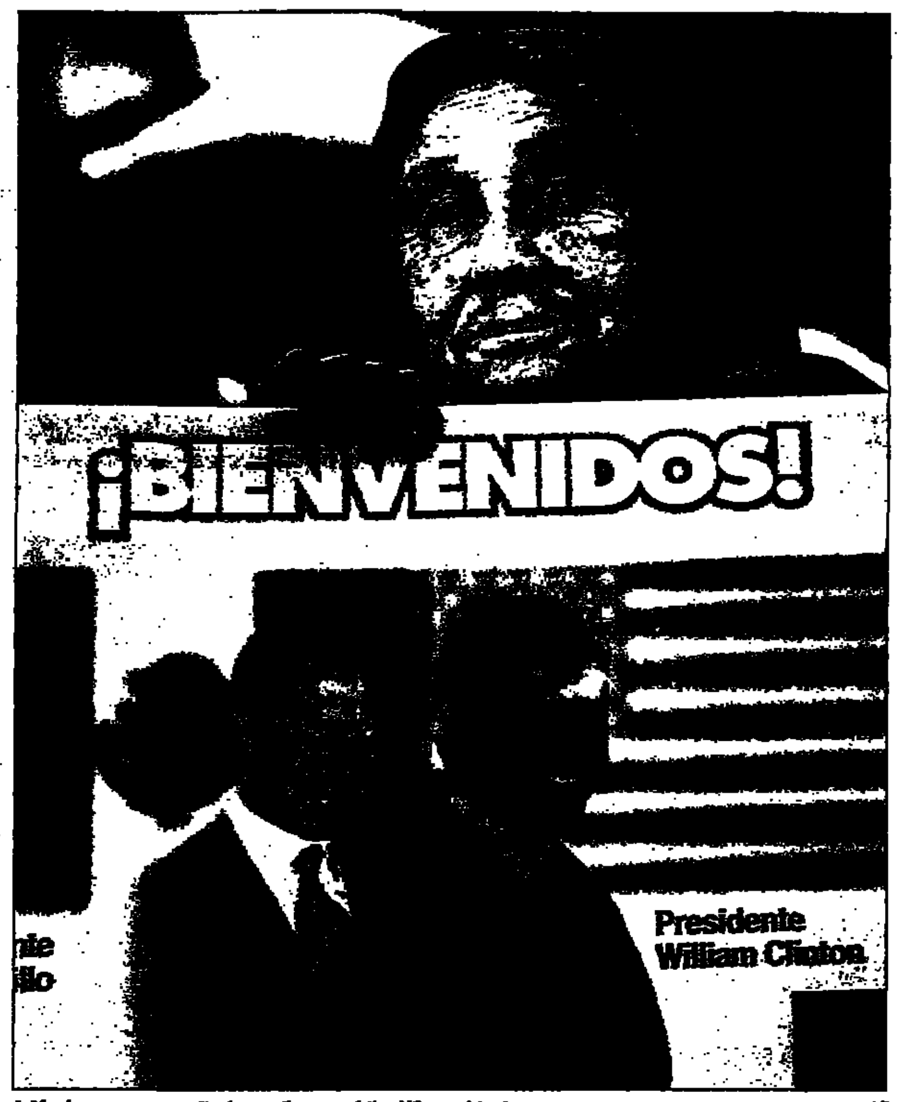
If there was frivolity, it was well away from the eyes of the cameras for good reason. The White House press corps was on "gloatwatch" – scouring the US president's gestures for any gossipy titbits in the aftermath of the Lewinsky scandal.

Mr Zedillo would also rather forget the Lewinsky scandal, since he too featured in the Starr report. In November 1997, before Mr Clinton was due to meet Mr Zedillo, Ms Lewinsky allegedly turned up in the Oval Office and showed the US president a suggestive e-mail. "They kissed, and the president rushed off for a state dinner with President Zedillo," the report says.

Also adding to the joint effort to avoid embarrassment was the Mexico government's fear that a hostile US Congress could threaten "certification" of Mexico over the extent of its anti-narcotics co-operation.

The White House has until March 1 to send Congress its recommendations on countries it considers allies in the drugs war, and Mexico is expected to be on the list. But if Congress rejects the recommendation, which it never has, it could lead to economic and other sanctions and spoil relations between the two neighbours.

Before the visit ended yesterday evening, both governments were expected to sign co-operation agreements on drug monitoring, as well as on violence and safety for migrants along the 2,000-mile border. Mexico also signed an agreement yesterday with the US Export-Import bank for a $4bn credit line to finance Mexican exports to the US.



A Mexican woman waits for a glimpse of the US president AP

NEWS DIGEST

VENTURE CAPITAL

Investments in US up 24% to record $14.3bn

Venture capital investments in the US jumped by 24 per cent to a record $14.3bn last year, according to a survey published today, with technology start-ups grabbing the lion's share of the funds.

With venture capital funds achieving average returns of 30-40 per cent, money is flowing into the "risk capital" sector at an unprecedented rate, according to the quarterly PwC venture capital survey.

Technology investments almost doubled in the past two years, to $10.8bn in 1998, up from $5.5bn in 1996, while internet-related investments more than tripled to $3.5bn over the same period.

In the fourth quarter alone, venture capital investments jumped 11 per cent to $3.7bn, and 713 companies received new funding. **Louise Kehoe, San Francisco**

COPPER MINE

Mexican strike ends

Workers at Mexico's Cananea copper mine have ended a three-month strike after an agreement with the mine owner, Grupo Mexico.

Close to 2,000 union workers walked out of Mexico's largest open pit copper mine in November in protest at company plans to cut staff and raise the level at which workers receive productivity bonuses.

But faced with sharply falling copper prices, the union found it had little negotiating power. The century-old mine, 60km from the US border, stopped losing money during the strike.

The miners agreed to the closure of Cananea's smelter, which employs 300 workers. Grupo Mexico, in return, said it would pay employees a productivity bonus for June. **Andrea Mandel-Campbell, Mexico City**

GUATEMALA APPEAL

Drug convictions reversed

Three men, including a former senior employee of Nestlé, the Swiss food giant, have had their convictions for drug trafficking overturned by an appeal court in Guatemala.

Andreas Haenggi, a Swiss who managed Nestlé's factory in Antigua, Guatemala, at the time of his arrest in 1997, has been freed, with a German and a Guatemalan.

The appeal court ruled there was insufficient evidence to convict the three men of the trafficking offences. They had been sentenced last September to prison terms of up to 12 years after being found guilty of involvement in trying to smuggle 13kg of cocaine to Europe. Two other Swiss, including Mr Haenggi's son, Nicolas, had their sentences cut from 20 years to five and three years, commutable on payment of a fine.

Supporters of the men had maintained there were irregularities in last year's trial and also complained of political pressure to convict, given Guatemala's wish to be seen to be co-operating with US anti-drug efforts.
James Wilson, Panama City

G15 urges world trade reform

By Canute James in Kingston

Developing countries are urging change to international trading arrangements, and to institutions such as the World Bank and the World Trade Organisation, to prevent further damage to their economies.

The poorer nations intend to "deepen the dialogue" with industrialised countries and to "make a contribution at every stage" in radical reform of the global economy, according to a statement by the Group of 15 developing countries following their annual summit in Jamaica this week. The G15 is made up of 17 states.

The leaders contended that the financial crises in Asia and Latin America were caused by unregulated cross-border financial trading. This coincided with a fall in returns from commodity exports, and the countries found little help from the current structure of international financial and trading organisations.

Mahathir Mohamad, Malaysia's prime minister, warned against emulating Asian countries in rapidly opening markets to foreign capital: "The great Asian Tigers are no more. Reduced to whimpering and begging, they are but a shadow of their former selves.

"We had welcomed foreign capital in order to boost our growth.

"We still do, but now we realise the damage to our economy when that capital is suddenly withdrawn. From being miracle economies we have now become impoverished nations."

Developing countries were suffering from a "globalisation deficit", and needed to re-examine the structures of their economies to see how they can protect themselves, said Hugo Chávez, president of Venezuela.

"What has been exposed by the recent crisis is the worst of all possible worlds – financiers who acted as if there was a global lender of last resort to bail them out, combined with the lack of a lender of last resort," said Percival Patterson, prime minister of Jamaica.

"As a lender of last resort, the IMF remains unsuited to that role. It simply has not been given adequate financial resources. And yet.. it did bail out the creditors, while leaving debtors in the lurch."

The group is also seeking "more equitable" arrangements in the World Trade Organisation.

Ecuador finance minister named

By Justine Newsome in Quito

Ana Lucia Armijos, the "iron lady" of Ecuador, was yesterday appointed to take over as finance minister following Fidel Jaramillo's resignation last week.

An economist who has previously worked at the central bank and the International Monetary Fund, Ms Armijos was previously interior minister. She is taking over at a crucial time for the economy.

The government hopes that, following Congress's passage of an austere 1999 budget last week, it can slow inflation, stabilise the economy and stimulate production. An annual inflation rate of 43 per cent in December was the highest in Latin America and real GDP growth was a mere 0.8 per cent last year.

Ecuador is anxious to reach a standby agreement with the IMF in order to renegotiate its Paris Club debt arrears, ease the path for new multilateral lending and restructure its external debt.

It is also entering uncharted waters after floating its currency last Friday. "The many adjustments to the bands in the last few years had hurt their credibility. The central bank's strategy of using interest rates, given the weak banking sector, and reserves, was not sustainable," said Michael Henry of ING Barings.

Luis Jacome, central bank president, said, "Ecuador's experience is different from Brazil's," adding: "It comes after fiscal policy has been agreed by Congress. Ecuador has tried to preserve reserves at a reasonable level and we moved directly to flotation."

There are hopes that Ms Armijos can thaw relations between President Jamil Mahuad and the newly independent central bank. She also has warm relations with the Social Christian party (PSC), on whose votes the government relies to form a congressional majority.

Political differences with PSC leaders and doubts about changes to the budget triggered Mr Jaramillo's resignation.

"I exhausted all possible efforts to ensure that technical and transparent management of public finances became the basis of national development. I am sorry that some political sectors put personal and party political interests first," said Mr Jaramillo.

NIGERIA'S ELECTION OBASANJO PICKED BY PEOPLE'S DEMOCRATIC PARTY □ DISARRAY AT ALL PEOPLE'S PARTY CONVENTION

Former military ruler wins backing as party candidate

By William Wallis in Lagos

Olusegun Obasanjo, Nigeria's former military ruler, won overwhelming support from his party yesterday to contest presidential elections on February 27.

The poll will lead to the country's first civilian government in more than 15 years.

Gen Obasanjo retired from the Nigerian army 20 years ago after handing over to a short-lived elected government. He beat off six other contenders for the candidacy of the People's Democratic party (PDP), winning 57 per cent of the vote at the party's national convention.

Despite delays, allegations of vote buying, and a carnival of last-minute influence-peddling among more than 2,000 delegates, the vote in the northern town of Jos was by all accounts transparent.

Gen Obasanjo said recently that, as president, he would push through economic reforms. He also promised a constitutional review that would address demands from throughout Nigeria for greater regional autonomy.

The PDP groups establishment figures from across the country, including a strong contingent of retired generals. It emerged as the leading force in earlier state and local government polls.

Alex Ekwueme, a former civilian vice president, and runner-up, accepted the result, ensuring party solidarity at this crucial stage of the electoral process. There remains the possibility however, that Mr Ekwueme's failure at the primaries will cost the PDP some of the support it has won in his home region, the south-east.

This may not matter, given the state of play in the other main party, the All People's party (APP), whose convention broke up yesterday in fist fights and threats of sabotage from delegates denied the chance to vote.

The APP is a coalition of ambitious business magnates, politicians who supported Sani Abacha, the former dictator, and some who did not. Its national executive council bypassed what promised to be a divisive ballot forcing through Ogbonnaya Onu, a little known former state governor, as the presidential candidate.

The convention also rode over opposition to a proposed electoral pact with a third party, the Alliance for Democracy (AD), which enjoys strong regional support among Nigeria's second largest ethnic group, the Yoruba. Mr Onu may himself fall by the wayside in favour of the AD's proposed joint candidate, Olu Falae, a former finance minister.

Like Gen Obasanjo, Chief Falae is a Yoruba from the south-west. He shares a strong reputation outside his region, but unless the APP can quickly put its divisions behind it, he is unlikely to have more than an outside chance of winning the presidency.

Gen Obasanjo's supporters see him as a steady hand, ideally suited to the task of steering Nigeria through a delicate change from military to civilian rule. Since 1979 he has built up an international reputation heading, among other bodies, the corruption watchdog, Transparency International.

A combination of the tough paternalist and the backing he enjoys across the Nigeria's divided regions are seen as key assets in uniting a nation which has come close to falling apart.

However, his candidature has been fiercely opposed by fellow Yoruba, who continue to believe that he failed to support their candidate for the presidency in the 1979 election. They and others also argue that an Obasanjo presidency would represent little more than a continuation of military rule in a civilian guise.

Addressing this issue and warning of the dangers of alienating the army, he said yesterday: "A lot of heat but unfortunately little light has been generated by the debate over my being a retired soldier. Much of the debate has been caused, perhaps understandably, by the feeling of frustration and despair experienced under recent military regimes.

Supporters of Gen Obasanjo celebrate yesterday. He is seen as capable of uniting Nigeria's fractious regions AP

G7 to ponder plan for global financial rules

By Robert Chote and George Graham in London and Tony Barber in Frankfurt

Proposals for a global committee on financial regulation will be discussed by finance ministers from the Group of Seven leading industrial countries next weekend, amid debate over the role that national regulators should play on it.

Hans Tietmeyer, president of the German Bundesbank, will present proposals for the committee at the meeting on Bonn on Saturday. It would bring together the International Monetary Fund and the World Bank, as well as bank, insurance and securities market supervisors.

"It is a fairly modest proposal," said one senior G7 official. Mr Tietmeyer will argue that a large new bureaucracy is unnecessary, but that the body should have a small secretariat.

Officials said that one controversial issue was the role of national regulators. Mr Tietmeyer is expected to propose that they should be represented at regular meetings by invitation rather than as of right. This reflects the problem that some G7 countries – for example the US – have complex domestic regulatory structures with no lead organisation.

Central bankers have already moved to improve their own mechanisms for monitoring financial stability issues by restructuring one of the chief committees operating under the aegis of the Bank for International Settlements in Basle.

The Euro-currency Standing Committee has been renamed the Committee on the Global Financial System and given a broader role in monitoring and developing policy on the functioning of international financial markets. It could be represented on Mr Tietmeyer's new body, though it is thought unlikely to have the same status as the Basle Committee of banking supervisors.

Germany's centre-left government will use the G7 meeting to press home its view that international financial markets should be brought under greater control and harnessed to the twin causes of economic growth and job creation.

But the finance ministry in Bonn distanced itself yesterday from controversial proposals to curb foreign exchange market "speculation" put forward recently by Wolfgang Filc, head of the ministry's international monetary affairs division.

According to Mr Filc, one proposal is an increase in the time gap between the execution of a foreign exchange transaction and its settlement. This might deter large-scale betting on currency movements.

Mr Filc said Germany did not want to "cage" them but rather to guide them in a responsible direction by means of what he called "guard rails". However, he added: "We have no plans to hinder, tie down or muzzle financial markets."

Chancellor Gerhard Schröder's government, the first Social Democrat-led administration to represent Germany at a G7 meeting since 1982, is also proposing an international institution to monitor big moves on foreign exchange and other markets.

NEWS DIGEST

OLYMPICS SCANDAL

Sydney's worries grow as sponsor warns of pull-out

Sydney's anxiety about sponsorship of the 2000 Olympics increased yesterday following warnings by Samsung Electronics, the South Korean company, that it was reconsidering its A$77.5m (US$50m) sponsorship because of negative publicity surrounding the "votes-for-bribes" scandal.

"We believe the recent scandals present some danger to sponsorship," Kim Se-hun, Samsung's manager of sports marketing, told an Australian newspaper. "We still need to evaluate the reports of the various judiciary committees (investigating Olympics scandals) before making decisions or definite comments as to the next step."

Mr Kim's comments followed criticism of the Olympics scandals last week from another main Olympics sponsor, John Hancock, the US insurance company, which said it would not use the Olympic rings as part of marketing programmes until corruption had been purged.

Last Friday, General Motors Holden, the Australian carmaker, also suggested it would review its Sydney Olympics sponsorship commitment. Several other Olympic sponsors have expressed concern about the scandal, which has centred on allegations that Salt Lake City bribed International Olympic Committee members to ensure it won the right to host the 2002 Winter Games.

The criticisms are particularly disturbing for the Sydney organising committee for the 2000 Olympics, which is struggling to make up a shortfall of about A$220m on its overall sponsorship target of A$870m. Sandy Hollway, the committee's chief executive, recently said the IOC scandal had made the sponsorship target much harder to achieve.
Gwen Robinson, Sydney

DEFENCE CONTRACT

Israel wins Croatian order

Israel yesterday won an order to modernise Croatia's MiG-21 fighter aircraft, brushing aside criticism that Franjo Tudjman, president of Croatia, still harboured anti-semitism.

The deal, worth between $80m and $120m and awarded to Elbit Systems and Israel Aircraft Industries, was finalised during a visit to Israel by Pavao Miljavac, Croatia's defence minister.

Yossi Beilin, a deputy foreign minister in the former Labour government, said the contract was "a disgrace" given Mr Tudjman's memoirs in which he expressed doubt about whether 6m Jews were killed in the Holocaust.

"Only a cynical government like that of Netanyahu would be prepared to sell its soul for such a contract," he added. Labour had refused to establish diplomatic relations with Croatia. A year after Benjamin Netanyahu was elected prime minister of the right-wing led Likud coalition in 1996, diplomatic ties were forged. Judy Dempsey, Jerusalem

SOFTWARE PIRACY

Microsoft doubts on Lebanon

Microsoft, the US software company, is reconsidering plans to open a regional office in Beirut after Lebanon's parliamentarians deferred a decision on a bill intended to protect intellectual property. Bahram Muhazzabi, general manager of Microsoft for the Gulf and eastern Mediterranean, said no office would be opened in a country "that did not protect that investment".

Microsoft, one of the leading software companies in Lebanon, says "above 90 per cent" of its software is being used illegally, costing the company at least $2m in lost earnings per year.

The issue has raised questions over the government's ability to implement a programme of institutional and legislative reform of a kind that will attract international investment. A number of parliamentarians had demanded discounts of up to 90 per cent on computer software for schools, universities and government departments.
James Schofield, Beirut

'Speed entry of developing countries to the WTO'

By Guy de Jonquières

The European Union yesterday called for a concerted effort to complete this year membership negotiations with the more than 30 developing countries seeking to join the World Trade Organisation.

Sir Leon Brittan, EU trade commissioner, said the initiative should aim particularly to accelerate WTO entry by the very poorest applicants by offering them simplified admission procedures and specially favourable terms.

His proposal coincides with intensified efforts by the US and China – the most populous of the applicant countries – to agree on Chinese WTO admission when Zhu Rongji, China's premier, visits the US in April.

Sir Leon said his proposed initiative should cover China and Russia, but also countries such as the former Soviet republics, the Baltic states, Albania, Croatia, Cambodia, Laos, Nepal, Saudi Arabia and Vietnam.

He said the WTO should aim to admit as many applicants as possible at its ministerial meeting in Seattle in November, which is expected to launch a world trade liberalisation round. That would mean concluding membership negotiations by late summer.

He said applicant countries must be prepared to accept commitments on trade similar to those observed by the WTO's 133 members. That would require them to return to membership negotiations with fresh mandates and more ambitious market-opening offers.

In return, WTO members should be ready to grant least developed applicant countries special terms, more lenient than those currently demanded of them.

Such terms could include a 30 per ceiling on the poorest applicants' tariffs on goods, and possibly a grace period of several years after admission in which to achieve it, Sir Leon said.

Transition periods could also be granted for adjustment to some WTO rules and disciplines, in areas such as protection of intellectual property rights, while applicants should be asked to open their agriculture and services markets as wide as those of the WTO's poorest existing members.

Sir Leon's initiative follows pleas by Renato Ruggiero, the WTO director-general, for a special effort to accelerate enlargement of the organisation.

Mr Ruggiero fears that unless decisive progress can be made before the WTO launches its next set of world trade talks, negotiations with applicants may stagnate for several years, when the requirements for membership are likely to be even tougher.

TRADE CONFLICT TOKYO MINISTER WELCOMES SUGGESTION OF FORUM BUT OFFICIALS HAVE DOUBTS

US presents Japan with plan to solve disputes

By Michiyo Nakamoto in Tokyo

The US has asked the Japanese government to consider setting up a new economic forum to discuss trade and other matters with the aim of defusing problems before they cause friction.

Shuji Yanai, Japan's vice foreign minister, yesterday responded favourably, saying: "I believe it would be desirable that there be a high-level mechanism... to discuss wide-ranging economic issues and to resolve individual trade issues before they turn into major problems."

The proposal, controversial in both Japan and the US, comes amid growing trade tensions between the two countries. On Friday the US Commerce Department released a preliminary anti-dumping ruling against steel imports from Japan.

Japan's vice minister for international trade and industry, Osamu Watanabe, yesterday indicated the Japanese government would respond firmly to US actions should they conflict with WTO rules.

"We will calmly monitor how the United States follows procedures under its domestic law. But if (US action) conflicts with WTO rules, we will make our opinions known," he said.

A sharp rise in Japan's current account surplus last year to a record Y15,861bn ($139bn), which was unveiled by the finance ministry yesterday, also prompted vice finance minister Koji Tanami to try to quash criticism that Japan was exporting its way out of recession. "It is not likely that we will seek to achieve an export-led growth. It is not desirable either," he said.

The rise in trade tensions has prompted calls for better communication between the two sides and the US proposal for a new forum could be discussed when Keizo Obuchi, Japanese prime minister, visits the US in May.

The refusal of the finance ministry to discuss problems the US sees in Japan's implementation of the bilateral insurance agreement has, for example, caused resentment on the US side.

However, the idea of a new forum has triggered some opposition in Japan where many government officials have been suspicious of bilateral arrangements aimed at negotiating specific issues.

Mr Watanabe of the ministry of international trade and industry notes that a new economic forum could be useful to discuss broad, global issues, but would be superfluous if specific trade issues were to be on the agenda.

Japan's experience of such bilateral arrangements in the past has generally been an unhappy one. In the famous semiconductor talks, Japan was forced to accept a particular target for foreign market share in the domestic semiconductor industry, much to its chagrin. The most recent arrangement, known as the framework talks, was agreed at the highest political level against widespread opposition from Japanese trade officials.

Japanese government officials stress that trade problems in particular should be discussed through the World Trade Organisation, rather than bilaterally.

Turkey acts to encourage foreign energy investors

By Leyla Boulton in Ankara

Turkey has taken an important step towards removing the single most important obstacle to investment in Europe's fastest growing energy market, the country's new energy minister said yesterday.

Ziya Aktas said his ministry had reached a "gentlemen's agreement" with the Danistay, the country's highest administrative court, that the court would not stand in the way of energy projects requiring international arbitration.

The constitution's current requirement that the Danistay should have the final say in any disputes with foreign investors is the biggest obstacle to Turkey's efforts to attract over the next decade an estimated $4.5bn in private investment to satisfy the "energy hunger" of a population which by 2010 could grow from 60m people to 80m.

Mr Aktas recognised that international arbitration was "a must" for financiers of deals both for the transfer of power plant operating rights to private companies and the sale of electricity by private generators. He said that contracts could be approved by the Danistay even before necessary constitutional amendments were passed by the parliament in six months' to a year's time.

The amendments would allow deals to be defined simultaneously as concessions, which are subject to Danistay arbitration, and as commercial agreements, which are not.

Mr Aktas, who is part of a caretaker administration that will run Turkey until elections on April 18, said the government also planned next month to sign a contract to buy 10bn cubic metres of natural gas a year from Turkmenistan over a 20-year period. The gas would be transported by a $3bn pipeline to be built by a consortium led by Bechtel of the US, providing the pipeline sees off a competing Russo-Italian project announced last month to transport Russian gas through Turkey. Mr Aktas brushed aside analysts' doubts that the Turkish and European gas markets could sustain two new pipelines. He also voiced confidence in a separate plan to build a $2.4bn pipeline carrying Caspian oil from the Azeri capital of Baku to Turkey's Mediterranean port of Ceyhan. He hoped an inter-governmental agreement between the states through which a pipeline would pass could be signed by mid-March, followed by the conclusion of agreements between the states and oil companies involved in the production and sale of Caspian oil.

NEWS DIGEST

FINANCIAL SERVICES DEAL

WTO accord to go ahead despite missed deadlines

World Trade Organisation members yesterday decided to bring a landmark accord liberalising financial services worldwide into force as planned on March 1, despite the failure of some governments to ratify the pact on time.

Fifty-two countries accounting for over 90 per cent of the global financial services market also agreed to give the 18 WTO members which missed the end-January deadline until June 15 to ratify the accord. The laggards include the important financial centre of Luxembourg, as well as Australia, Brazil and Poland.

The pact to enlarge foreign competition in banking, insurance and securities services was adopted by 70 countries in December 1997 after difficult negotiations in the midst of the Asian financial crisis. Hailing yesterday's decision Renato Ruggiero, WTO director-general said it would inject a measure of stability into turbulent global financial markets.

Meanwhile, the WTO's general council yesterday declined to issue an interpretation of WTO dispute settlement rules relating to compliance, the subject of a bitter argument between the US and the European Union in their banana battle.

The matter, which the EU put on the agenda, has been referred to a more general ongoing review of WTO dispute procedures. **Frances Williams, Geneva**

COSMETICS TESTS ON ANIMALS

Brussels 'under US pressure'

The European Commission is under pressure not to amend its cosmetics directive to ban the use of ingredients tested on animals because of fears that the move would breach world trade rules, according to the Royal Society for the Prevention of Cruelty to Animals, the leading UK animal welfare charity.

The RSPCA claims a modification to the existing directive risks not being adopted because of protests from the US that it would act as a barrier to trade.

The amendment was originally intended to outlaw the sale in the EU of cosmetics which contained ingredients tested on animals, including those imported from outside Europe. But Brussels has been advised that banning products that were not tested in Europe – even if tested on animals – would breach international trade obligations.

Alex Ross, RSPCA spokesman, claimed the EU also wanted to ban imports of furs caught in leghold traps in Canada and the US, but again backed down because of fears it would lose a legal challenge with the WTO.

"We need to persuade other countries and the WTO to change their rules to stop animals and the environment being sacrificed for trade concerns," he said. The RSPCA will today lobby the British parliament to persuade ministers to take up the case through the EU.
George Parker, London

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Microsoft wins compensation

Microsoft, the US computer software group, has won compensation from two Chinese companies worth a total of $100,000, the China Daily newspaper said yesterday.

It said Beijing Haisida Science & Technology Development Company and Min'an Investment Consulting Company were found guilty by a Beijing court of copyright *infringements* and the unauthorised use of Microsoft products.

China is trying to crack down on copyright infringements and on the misuse of intellectual property rights as part of its bid to enter the World Trade Organisation. Many western WTO members, particularly the US, have said they want to see China take a stronger stance against copyright piracy before WTO entry is seriously considered.

"The verdict of this case demonstrates China's efforts to further strengthen protection of intellectual property rights," the newspaper quoted Tom Robertson, Microsoft's lawyer, as saying. **AP-DJ, Shanghai**

DEVELOPING NATIONS FOREIGN OFFICE PLAN

UK groups urged to fund environmental secondments

By Andrew Parker, Political Correspondent

UK companies are to be asked to provide secondments for industrialists from developing countries to help improve their knowledge of environment-friendly working practices.

Robin Cook, foreign secretary, indicated last night the government would pay for the secondments through a "climate change challenge fund".

"It will fund projects that will help developing countries to build up the capacity they need to combine healthy growth with low emissions of greenhouse gases," Mr Cook told the Green Alliance, an environmental coalition, in London.

An Anglo-German forum on the environment is to be set up, underlining the need for European wide solutions. It will bring together ministers, business and non-governmental organisations.

Mr Cook said he was inviting "young future leaders from developing countries" into the Foreign Office because "the key to building a global consensus on the environment will be to break down the suspicion between north and south. We in the developed world need to convince the south that our concern for the environment is not a form of protectionism in disguise".

The Foreign Office will provide £500,000 ($820,000) to the fund. Mr Cook said he hoped UK companies with an interest in the environment would at least match this sum.

"The challenge fund will enable young high fliers in the key industries in these countries to spend time in British companies.

"It will pay for carefully targeted consultancies and training programmes," Mr Cook said.

He added that the European Investment Bank was "keen to work with us, funding appropriate projects that our challenge fund opens up through its well-established banking network in developing countries".

A Foreign Office official said the climate change challenge fund would help developing countries move from a "high emissions target to a low emissions target".

He added that the specific uses for the fund had not been finalised but could include financing the secondments.

Other uses could involve paying for the secondees – to include officials as well as industrialists – to attend UK higher education courses and financing seminars in the developing countries on climate change.

Mr Cook also announced that the Foreign Office would be inviting a secondee from business to promote the UK's environmental industry. A secondee would also be brought in from an environmental organisation.

Mr Cook insisted he had pushed the environment up the Foreign Office's agenda. "We strengthen our environmental policy by having a foreign policy that supports democracy, human rights, accountability and openness," he said.

Poor oil prices spell troubled waters for the industry

With crude languishing close to a 12-year low, the long-predicted decline in the sector may be about to begin. Robert Corzine reports

Anyone seeking signs of the oil price collapse in Aberdeen, Britain's oil capital in north-east Scotland, may find themselves frustrated. On the surface, it is business as usual: helicopters shuttle between North Sea platforms and Aberdeen airport, and house prices, rivalling London and southern England, remain high.

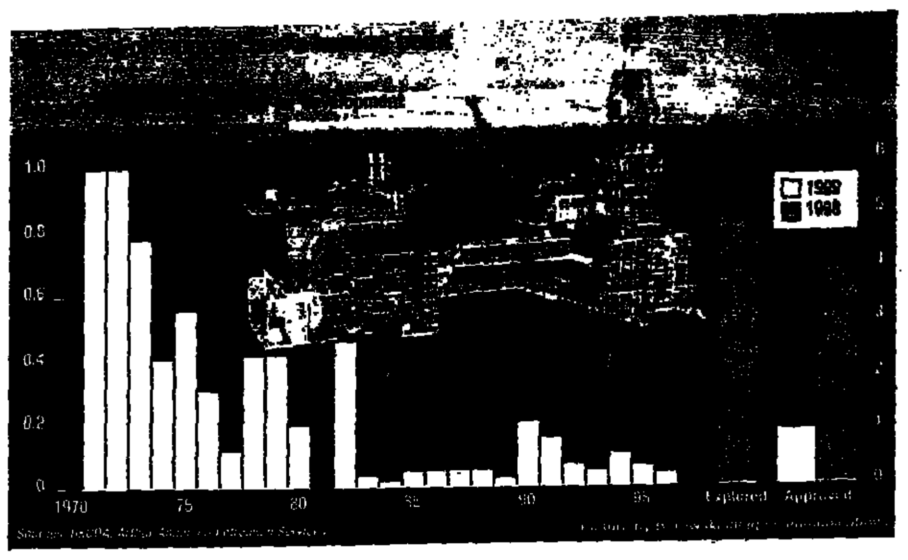
But dig deeper and it is clear Britain's offshore oil industry, which until recently accounted for nearly a fifth of all industrial investment, and which supports more than 380,000 jobs across the country, is at a turning point. With crude prices testing 12-year lows, many wonder whether the long-predicted but much-postponed decline of the industry is about to begin.

The answer is not straightforward. Short term, there appears to be little danger of a collapse in output. Wood Mackenzie, the consultancy based in Edinburgh, the Scottish capital, believes about 93 per cent of output from the UK continental shelf would still be economic with an average oil price as low as $7 a barrel, well below the present range of $10-$12. It also predicts UK oil output this year will surge by 14 per cent to a record average of 2.99m barrels a day, as companies seek increased volumes to offset lower prices.

A steady reduction in offshore operating costs underpins the new resilience of the industry. Royal Dutch/Shell, one of the biggest producers, says its operating costs of about £2.50 a barrel are three times lower than its 1990 projection for this period. Technological innovation, more focused management and new arrangements with contractors and suppliers account for much of the reduced costs.

But the price collapse is being felt at the exploration and appraisal level, where activity has plummeted. Given the cyclical nature of the oil business, a prolonged downturn in exploration would have a knock-on effect on future production levels.

Capital spending is also being slashed. This will hit UK platform fabricators,



which face a dearth of big field developments in the pipeline. Malcolm Brinded, managing director of Shell UK, believes sub-sea developments will dominate in future. The aim will be to tap the many small fields that surround the larger, developed reservoirs. Wells will be placed directly on the seabed with pipelines taking the oil, gas and water mixture back to existing platforms for processing.

"There are plenty of small developments in the £80m range," says Mr Brinded. "But we need to repeat them quickly and simply." That may require fundamental reforms to the way the industry is organised.

A new government-industry taskforce has been charged with enhancing the sector's competitiveness. "The North Sea needs to be operated differently," says Pierre Jungels, chief executive of Enterprise Oil, the UK's biggest independent explorer. Enterprise and Amerada Hess, the US oil group, recently looked at combining offshore assets under a single unit. That idea did not pass the discussion stage, but other operators may find more compelling combinations.

Mr Brinded says tax changes could allow more consolidation in individual licenses allowing companies to build meaningful stakes. Other big producers, such as BP Amoco, want relief from royalties on older fields.

But much remains to be done. Crine, an industry body, believes offshore life-cycle costs – finding, development and operating costs – can be cut from $12 a barrel to $8 by 2002. In the early 1980s they were $22.

Some savings are expected from changes to the way the industry organises its supply chain. "We often never know how equipment performs after it leaves the factory," says Syd Fudge, chairman of the Offshore Contractors Association, a trade group.

Improved technology also figures in Crine's thinking. Cutting the cost of wells is the biggest priority, given that they are the most expensive element in most offshore developments. Although day rates for drilling rigs have fallen from $130,000-$150,000 last year to $50,000-$80,000, new technical approaches, such as slimmer wells, could cut drilling costs by up to a third within five years or so.

But a question mark remains over future investment levels unless crude prices improve. "Oil prices at $14-$15 a barrel will keep the North Sea a viable business," says Mr Brinded.

But if prices stay depressed for several years, the long-term outlook could be grim, with returns on investment in small fields struggling to meet corporate hurdle rates. "It will be hard to stop the rot once oil companies stop investing," says Mr Fudge. "Investment has already slowed down."

Menus to detail contents of modified foods

By David Wighton, Political Correspondent

The government yesterday said it would bring forward the introduction of rules to force restaurants to disclose whether they are serving genetically modified foods. As part of a counter-offensive over such foods, the government said it hoped to bring in regulations by June requiring menus to carry details of the GM content.

In a sign of the government's concern at the media backlash, Downing Street sought to use the prime minister's eating habits to reassure the public. Declaring the prime minister had "no problem" with eating GM foods it said: "The prime minister is very strongly of the view that this product is safe. He has not hesitation about saying that."

Critics said the move smacked of "desperation" and recalled a similar demonstration of confidence by John Gummer, the then Conservative agriculture minister when at the height of the BSE crisis he fed a beefburger to his daughter.

Government insiders say ministers are hampered by two main constraints: the fact that the UK has little scope for independent manoeuvre and the fear that taking a tough line against GM products would jeopardise the UK's world-class bioscience industry.

Although the main GM products available are from US companies, UK companies are heavily involved in technologies involving gene manipulation. "The worry is that if this thing gets out of control and the government is forced to take a hard line against biotechnology companies, they may just decide to take their labs somewhere else," said one industry executive.

Another problem for the UK government is that regulation of GM food and crops is a European Union matter. Britain could not impose a moratorium on new GM foods or crops without running up against Brussels. The French did that and are facing legal action in the European Court.

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Pro-British leader faces opposition over peace agreement

By John Murray Brown in Belfast

David Trimble, Northern Ireland's first minister, looks set to be opposed by a majority of unionists today when the regional assembly votes to ratify the new power sharing arrangements.

Mr Trimble is leader of the Ulster Unionist party, the biggest pro-British party in the region.

Unionists in the 108-member assembly are evenly split. But one of Mr Trimble's 28 assembly members has said he would vote against the motion, tipping the balance of power towards opponents of the 1998 peace agreement brokered by former US Senate majority leader George Mitchell.

Peter Weir, a UUP assemblyman, said in December he would vote against ratifying the shape of the new regional administration because the deal did not demand prior handover of weapons by the Irish Republican Army.

But a majority unionist vote against Mr Trimble will not change the result of today's vote because the motion will be backed by the moderate nationalist Social Democratic and Labour party and Sinn Féin, political wing of the IRA.

The issue underlines the internal challenge Mr Trimble faces over his tentative rapprochement with republicans. The assembly is being asked to approve 10 ministries and six "north-south" bodies which will implement policy in co-operation with the Irish Republic. A separate vote will be taken on setting up a civic forum to bring together business, unions, the voluntary sector and churches to consult on issues of mutual interest.

But Mr Trimble insists the IRA should first hand in some weapons before Sinn Féin can take seats in the executive.

A spokesman for Tony Blair, the UK prime minister, said: "The prime minister believes all aspects of the agreement have to be met. You cannot pick and choose between them. He believes there has to be a start to decommissioning."

SCOTLAND NATIONALIST PARTY UNVEILS PROPOSALS FOR LOW-INTEREST BONDS TO FUND LARGE PUBLIC WORKS PROJECTS

SNP says private finance scheme must go

By James Buxton in Edinburgh

The Scottish National party will today spell out its determination to replace the private finance initiative with a Scottish public services trust that would guarantee low-interest bearing bonds to finance large projects. The PFI is an effort to attract private finance to public projects. It was inherited by the present government from its Conservative predecessor.

PFI is being used in Scotland for three hospitals, a large schools rebuilding project and a prison. Alex Salmond, leader of the nationalist party, which campaigns for independence for Scotland in the European Union, said the new system would be cheaper than PFI and would leave the assets in the hands of the state at the end of the 30-year borrowing period, rather than in the hands of the lenders, as happens under PFI. "This is an imaginative way to end the present rip-off of PFI and fund new assets," he said.

But the scheme was attacked yesterday by Sam Galbraith, the Scottish health minister, who said it would add to the public sector debt, limit the spending power of the Scottish parliament and halt hospital schemes now under way.

Under the scheme financial institutions would issue bonds on the international bond market to fund public works projects in Scotland. With a guarantee from the Scottish public services trust the bonds would pay interest rates as low as 4.75 per cent, compared with the 9 per cent Mr Salmond claimed is often charged for lending under PFI.

He said the new Edinburgh Royal Infirmary, now being built under PFI and involving borrowing £200m, would need to borrow only £125m under the SNP scheme. The PFI has a poor image in Scotland because it is seen as a threat to public sector jobs. In opposing it the SNP is aligned with Unison, the largest public sector workers' trade union, and the British Medical Association, which represents family doctors.

Mr Galbraith said financial institutions would only lend more cheaply if a government institution such as the Scottish Office guaranteed the debt of the new public services trust and assumed the risks of the project. But if that happened the debt would count as public sector debt. "That would mean that the amount of other capital expenditure which a devolved Scotland could undertake would be massively reduced."

He said the SNP's claim that the cost of borrowing for the Edinburgh Royal Infirmary could be reduced by 60 per cent to £125m was "truly Alex in wonderland politics".

● Ferries will no longer be able to take doctors to two Scottish islands to deal with emergencies in the middle of the night because of EU-inspired working time laws.

Caledonian MacBrayne, the ferry company, has told residents on Gigha and Iona off the west coast that new working time legislation makes the emergency service impractical.

PRIVATISED COMPANY CONTRACTORS ARE URGED TO REVIEW STANDARDS BECAUSE OF PEAK LEVEL OF 'UNSAFE ACTS'

Increase in dangerous incidents on rail network

By Charles Batchelor, Transport Correspondent

Railtrack, the privatised owner of most of the UK rail infrastructure, plans to step up its safety procedures in the wake of an alarming increase of incidents involving contractors working on the rail network.

The number of "unsafe acts" including "near misses" of workers on the line and problems with incorrectly isolated sections of electric rail rose to a record level in the four weeks to mid-November, the company said yesterday. In one incident a safety supervisor allowed an engineer's train into an area where men were working and was then found asleep in his car.

The increase in incidents caused by contractors contrasted with an overall decline in the number of life-threatening incidents on the railway in recent years. The decline in safety standards among contractors has forced Railtrack to renew its appeal for them to raise standards.

Railtrack has been under pressure in recent months from the the railway inspectorate, MPs and trade unions over its management of contractors and has normally defended its record of dealing with them. The transport committee of the House of Commons warned in December that Railtrack was not monitoring its contractors adequately.

It has been criticised for failing to properly monitor companies new to the rail industry. When the former state network's track maintenance companies were privatised, many were bought by civil engineering groups including Amey, Balfour Beatty and Jarvis. Railtrack's concerns are revealed in the latest edition of a staff newspaper. It said it wanted to bring home to its staff the importance of this safety issue.

A total off 111 incidents was recorded in the four week period to November 14 and the average in recent months has been 18 per cent higher than a year ago, according to the company's latest group safety report.

Two contractors' staff have been killed over the past year while 58 have suffered severe injuries, 20 more than the previous year.

NEWS DIGEST

HEATHROW 'DISASTER'

Engineering group fined $1.9m over tunnel collapse

Balfour Beatty, the engineering company, was yesterday fined £1.2m ($1.9m) over a tunnel collapse at Heathrow Airport in 1994. A £500,000 fine was imposed on Geoconsult GES, the Austrian engineering consultancy firm that monitored construction of the tunnel. Both organisations were ordered to pay £100,000 in costs.

The judge at London's central criminal court called the collapse "one of the worst civil engineering disasters in the United Kingdom in the last quarter of a century". The tunnel, part of the Heathrow Express rail link to central London, collapsed in October 1994 leaving craters at the airport and causing the cancellation of hundreds of flights.

The fines far exceeded those imposed in other cases of breaches of health and safety rules without loss of life, which have typically ranged between £100,000 and £250,000. Geoconsult was convicted on two charges of failing to ensure the safety of employees and the public last week. Balfour Beatty pleaded guilty to the same charges in November 1997. The tunnel was being built using the "Austrian method", in which the contractor uses an excavator rather than a boring machine and uses wire mesh and concrete to reinforce the walls of the tunnel. This minimises the need for extra support – and cuts costs. **Vioki Bakhshi, London**

STATE HEALTH SERVICE

Warning over tobacco cases

Proposals for state health service hospitals to sue tobacco companies were rebuffed yesterday when the government warned court action would be illegal. The announcement came after it emerged that health service managers were considering trying to recover funds from cigarette manufacturers for the costs of treating smokers. But the Department of Health insisted such action would require new legislation, which the government is not intending to pass.

Dr Bill O'Neill, ethics and science adviser to the British Medical Association, the family doctors' group, said: "We believe the department's stance on the legal position needs to be challenged. The government is understandably reluctant to take on the tobacco companies and perhaps does not want health service trusts [hospitals] to be seen to be 'spending public money' on this legal battle."

PRIVATE HEALTH INSURANCE

Bed charges anger industry

Bupa, the largest UK operator of private hospitals, angered the health industry by demanding an increase of three times the rate of inflation in charges for its beds – while the insurance side of the business tells rival hospital providers it will only pay a near-zero increase in their charges. The move came as Bupa disclosed in confidential correspondence to private hospitals that it faces a loss of more than £20m ($32.8m) on last year's insurance business. Others in the industry accuse Bupa of double standards, while private medical insurers are angered at the implications of Bupa's price increase for their premiums. Bupa Hospitals is seeking a 7.5 to 8 per cent increase in its hospital charges when Nuffield Hospitals, the third largest group, is raising its prices by only 2.5 to 3 per cent.

Fergus Kee, managing director of UK membership for Bupa's insurance arm, insisted the hospital and insurance sides of the business "operate independently of each other". With Bupa insurance losing money, "we are doing what any business in our position would do, which is seek the minimum prices increases possible from our suppliers right across the industry". **Nicholas Timmins, London**

MENTAL HEALTH

Psychopath move 'shocking'

Dangerous psychopaths are to be locked up indefinitely – whether or not they have committed a crime – under laws proposed by the government yesterday. Jack Straw, home secretary, told MPs that some people with severe personality disorders are such a threat to the public they should be incarcerated even if they have not yet broken the law. He accepted that "detaining people indefinitely on the basis that they pose a danger to society is a serious step", but "the safety of the public is our prime concern".

But John Wadham, director of Liberty, the civil liberties campaign, condemned this judgment as "shocking". He said: "Proving that you are not dangerous is almost impossible and there is no doubt that some people who are no danger will be locked up."

The government's plans for imprisonment focus on those who have been released from jail or psychiatric care after serving their sentence for previous crimes, and those who have yet to commit crimes but are thought to be a threat. The current law allows such people to be detained only if "treatment is likely to alleviate or prevent a deterioration of their condition". They are held in psychiatric hospitals. **Simon Buckby, London**

OFFICIAL STATISTICS REVIEW BY KPMG

Role of private sector to widen

By Simon Briscoe, Statistics Editor

The private sector is to be given a greater role in collecting Britain's official statistics, the government is soon to announce.

The move follows a review by KPMG, the consultant, commissioned by the Treasury last July. The aim of the review was to improve efficiency and identify potential savings. It is believed to have specified contracting out collection of data as the way to provide the biggest benefits.

The Office for National Statistics' 3,100-strong workforce could be cut be by 1,000 if the private sector takes on wider functions and the ONS focuses on analysis and dissemination. But hundreds of jobs could move to the private sector.

The review could have an impact on the 10-yearly census, next due in 2001, which is expected to cost more than £100m ($164m).

But contracting out data collection for other surveys would have a greater impact on the ONS structure. The organisation conducts nearly 100 business surveys each year and many other studies.

The government's handling of the review has attracted criticism. The remit was vague and many observers, including the House of Commons Treasury committee, felt any study should have been carried out as part of the government's recent spending review, which set out three-year financing plans for all departments.

Private sector involvement in data collection has already been tested on the retail prices index. The ONS considers this a success and the government plans to retender when the existing contract expires this year. But critics within the ONS fear the quality of data will fall if respondents are not answering government surveys because of fears about confidentiality.

The move comes at a time of upheaval for the ONS. There have been a number of recent structural changes in the organisation, as well as complaints by senior staff of underfunding.

MANAGEMENT & TECHNOLOGY

MANAGEMENT FLEXIBLE WORKING

Pathway for pioneering performers

Alison Maitland finds you do not necessarily have to work long hours in the office to get to the top


Nine to five: but part-time work is gaining acceptance — Moviestore

Part-time work is still often associated with low-wage, low-status jobs. But a new breed of highly rated managerial staff working fewer hours is emerging in many of North America's leading companies.

A study of 87 part-time managers and professionals working for a wide range of US and Canadian employers has found that many are "star" performers.

The researchers admit they were surprised by the success reported in the survey, which also questioned spouses or partners, senior managers, human resources staff and co-workers.

"These kinds of jobs are assumed to be impossible to customise and contain, given the responsibility for the work of a group of subordinates," says Mary Dean Lee of McGill University's management faculty, leader of the research team.

Senior managers cited many reasons for approving a cut in working hours: to keep outstanding staff and to avoid wasting the investment in their training.

Many of the 87 managers and professionals – who included software engineers, human resources specialists and finance experts – were women with children under 10.

They were generally fairly high-level employees with an average of 11 years' service. Their salaries averaged nearly $60,000 (£37,000), with the highest on $140,000.

The 45 organisations involved included AT&T, International Business Machines and Procter & Gamble, and professional services firms such as KPMG and Ernst & Young.

On average the sample had reduced their weekly working hours from 50 to 32 – by working four days a week, rather than five or more, for example. They took on fewer clients or projects, extended deadlines, dropped less important aspects of the job or moved away from handling staff or clients to concentrate on project work.

Their performance was as good as, or better than, before, according to most of their senior managers. Some were seen as being more creative and productive because they had achieved the desired balance in their lives.

"In general, senior managers tended to attribute the success ... to the unusually talented individuals involved, as well as to increased loyalty, motivation and commitment," say Professor Lee and her co-author, Shelley MacDermid of Indiana's Purdue University.

Given the value placed on such people, a crucial question facing many employers is how to help them advance in their careers if they remain part-time. Only 10 per cent of the sample planned to return to full-time work within the next three years.

The top managers commonly felt jobs above a certain level could not be done on a shorter working week. Even in companies prepared to experiment and innovate, "there appears to be no real re-evaluation of the traditional career path to the top", say the authors.

This is echoed in negative statements from some individuals that their careers had "plateaued" and that opportunities to progress would only arise if they resumed full-time work.

However, while most believed they had made some career trade-offs, two-thirds did not believe their progress had been halted. Many talked about pursuing career success "on their own terms". Of the whole sample, 35 per cent had been promoted while working fewer hours.

Having a supportive senior manager was the most frequently mentioned factor in making the arrangement work. Significantly, 70 per cent of senior managers in the survey were rated as highly supportive, although only 40 per cent had negotiated the original agreement.

How can senior managers help? The research suggests they should be sensitive and creative in solving problems, encourage dialogue about the workload, and assume shared responsibility for the arrangement's success.

Problems included logistical difficulties in setting up meetings. Redefining jobs to be less than full-time was not straightforward, senior managers said. It took trial and error and the arrangements might have to be frequently fine-tuned.

Particularly difficult were jobs involving constant crises or unpredictable and excessive work demands.

Many co-workers were positive about the arrangements, saying the professionals and managers had found creative ways to remain accessible. They found it inspiring that high-level employees were allowed to work in alternative ways.

While most believed they had made some career trade-offs, two-thirds did not believe their progress had been halted

But a quarter were unhappy, often because part of the workload had been shifted to them or they had to cover in emergencies. The authors say such concerns must be acknowledged and managed.

By contrast, many co-workers were concerned that the part-timers were doing essentially the same job in less time. More than three-quarters of spouses and partners reported a better family life, but a minority was worried that the workload seemed as big as before.

Making these arrangements work is often left largely up to individuals, the report concludes. But corporate attitudes can make all the difference. What was thought impossible in one company was considered an ideal arrangement in another.

As many part-timers expressed it, limits to success lay not in the nature of jobs but in the lack of imagination in redefining or restructuring them.

Plenty of imagination is likely to be needed, says Prof Lee. "These people are the pioneers. They'll be opening doors for people who are strong, solid performers. I believe there will be more and more men and women demanding this kind of arrangement."

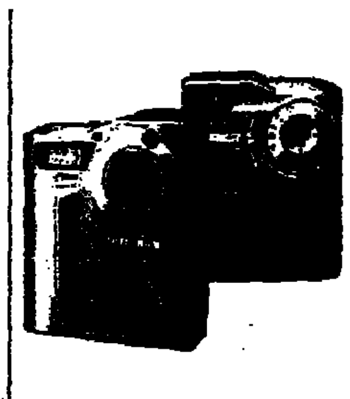
Improvising New Careers: Accommodation, Elaboration, Transformation. Available from 001 514 398 4030 or email: lee@management.mcgill.ca or web address: www.management.mcgill.ca/faculty/report/mdlee/


INFORMATION TECHNOLOGY BRIEFS

Fujifilm plans colourful launch for world's smallest pixel camera

Weighing just 8½ ounces and measuring 4in high, the world's smallest 2.3m pixel camera will be launched by Fujifilm in April. The Japanese group says the digital MX2700 camera produces files of sufficient size – six megabytes – to produce clearer and more colourful images.

Within the pocket-sized case, the MX2700 has some special features. These include an innovative new filter and enhanced signal processing that offers improved skin tones and other colourings.
www.fujifilm.co.uk/di


Small issue: the digital MX2700

Built-in point of connection

Increasing numbers of peripherals such as printers, scanners, speakers and mice can be connected to the computer via a Universal Serial Bus (USB), *writes Geof Wheelwright.*

Some digital cameras are being fitted with USB connections to desktop and notebook computers. But you cannot plug these extras into a single USB port. The normal solution is a USB "hub" – a box with sockets for USB devices and a connection to the port.

ViewSonic, the US-based computer display manufacturer, has developed a line of displays with a built-in USB hub. This enables up to four USB devices to be connected without a separate USB hub.

For less than $1,500 in the US, you can get ViewSonic's new Xtreme Monitor which includes a 21-inch display, capable of showing images at a 2,048 x 1,536 pixel resolution. It also boasts a four-port USB hub to simultaneously run USB compatible peripherals and "Host On Screen" software.
www.viewsonic.com

Online archive for legal material

Butterworth, the UK law firm, has teamed up with Autonomy, a UK technology group, to develop an online archive base with 17,000 pieces of legislation dating from 1267 AD, and 300,000 pieces of legal material.

Autonomy's software reads, categorises and links thousands of pieces of legal knowledge. These are contained within two sources: Legislation Direct, a database that includes every legal act and statutory instrument in force in England and Wales, and Halsbury's Law Direct, the 50-volume legal bible compiled since 1908.

The software provides subscribers to Butterworth's online legal information service with an accurate reference guide to English and Welsh law.
www.butterworth.co.uk

Web server in your shirt pocket

Researchers at Stanford University have built a matchbox-sized web server that is small enough to fit into a shirt pocket, *writes Vanessa Houlder.* The computer scientists believe that the computer, which was made using off-the-shelf components, is the smallest ever built.

The server, which is less than 1.75 inches high, 2.75 inches wide and 0.25 inches thick, consists of an AMD 486-SX computer with a 66 megahertz central processing unit, 16 megabytes of random access memory and 16 megabytes of flash read-only memory. It is connected to the internet through a parallel port and runs a cut-down version of Linux, a version of the Unix operating system. Because the machine is a web server, it does not need a keyboard or a display.

The server is one of the first projects carried out as part of the Stanford programme for developing computer technology that can be incorporated into clothing. The computer could be put in a shirt pocket and linked up to special glasses that can act as a computer display. The researchers are working on a glove as a possible replacement of the keyboard in an attempt to find a compact method for inputting data.
http://wearables.stanford.edu

Alcatel offers first IP-PCX

The world's first internet protocol-powered Private Communications Exchange (IPPCX) has been launched by Alcatel, the French telecommunications equipment group. The new product is designed for integrated enterprise voice and data and fixed and mobile communications.

Olivier Baujard, president of Alcatel's enterprise and data networking activities, said: "The benefits to the enterprise are enormous.

"As voice communications are enabled over the data network, there is now only one network and one management system for the IT manager to control. For the end-user, there is a seamless transition that offers new business benefits through enhanced IPbased applications and communications tools."
www.alcatel.com

Compaq, Lotus opt for UK system

Compaq Computer and Lotus Development Corporation have selected Knowledge Management, the UK consultancy, to contribute its Knowledger.Innovation software system to the US groups' portfolio of products.

The system comprises a web- or Notes-based "Innovations Space" where users can identify problems and generate solutions. There is also an online training course in creative thinking to aid the innovation process.
www.knowledgeassociates.com

Christopher Price

LEGAL NOTICES

No. 00935 of 1999
In the High Court of Justice
Chancery Division Companies Court
In The Matter of
THE FLEMING AMERICAN INVESTMENT TRUST PUBLIC LIMITED COMPANY
and in The Matter of
The Companies Act 1985

NOTICE IS HEREBY GIVEN that a Petition was on 8 February 1999 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of the capital of the above-named Company from £23,444,508 to £22,776,128 by returning capital which is in excess of the wants of the Company.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Companies Court Registrar at the Royal Courts of Justice, Strand, London WC2A 2LL on Wednesday the 24th day of February 1999.

ANY Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of capital should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned Solicitors on payment of the regulated charge for the same.

Dated the 15th day of February 1999
LINKLATERS & PAINES (DTL)
One Silk Street, London EC2Y 8HQ
Solicitors for the above-named Company

No. 0013 of 1999

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

IN THE MATTER OF
THE FLEMING MERCANTILE INVESTMENT PLC
- and -
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 27 January 1999 confirming the reduction of the capital of the above-named company from £45,000,000 to £40,366,750 and the Minute approved by the Court showing with respect to the capital of the said company as altered the several particulars required by the above-mentioned Act were registered by the Registrar of Companies on 8 February 1999.

DATED the 9 day of February 1999

LINKLATERS & PAINES (DTL)
One Silk Street
London EC2Y 8HQ
Solicitors for the above-named Company


TIM JACKSON
ON THE WEB

Free rein on the net

Offers of connection, software and hardware without charge could push the internet into the mass market very rapidly

"Follow the free" is a maxim that has been quoted several times in this column. What it means is that internet businesses offering their product or service free of charge are especially worth watching, because word of mouth works so quickly over the internet.

Netscape was the first business to prove this: the heady success of its over-subscribed initial public offering was largely due to having given away nearly 9m copies of a piece of browser software. Mirabilis, the company behind ICQ, an instant message tool, is another example: sold to America Online for $287m before it had made a penny in revenues, the company attracted 20m users in two years of service. And Dixons FreeServe, a no-cost internet service provider, became the biggest online service in Britain after less than three months.

There is no reason why freebies should be limited to software. Cellular phone networks give away handsets, and cable television providers give away set-top boxes. Last week saw the launch of Free-PC Inc - a company based in suburban Los Angeles that proposes to give away 10,000 Compaq Presario PCs with free internet access. There is only one catch: recipients must be willing to see advertisements as they use their computers.

The company won some free publicity when it launched at a trade show on February 8. During the past week, half a million people have filled in a questionnaire on the web (www.free-pc.com) in the hope of a free computer.

The economics are simple. The web has already proved its effectiveness as an advertising medium - or to be more precise, a direct-response medium, since advertisers can instantly track how their money is being spent.

Typical advertising rates on web sites are two cents per page view. Assuming the Compaq boxes cost $500, Free-PC would need to generate 25,000 page views over the machine's lifetime to cover hardware costs. If each page were viewed for 20 seconds, that would require 138 hours of use - just over a year at 10 hours a month.

But the numbers are far, far more attractive than that. Instead of showing only banner adverts on web pages when the PC is connected to the internet, Free-PC will show them all the time. Its "customers" will get machines that shrink the screen by nearly 40 per cent of its usual size, with a border around the side full of adverts, banners and buttons. To make them more exciting than typical internet adverts, which have to be small data files in order to download quickly, the PCs will reserve half their 4-gigabyte hard disk capacity for graphics.

As far as I know, nobody has ever done mass market tests of responsiveness to PCs stuffed with highly targeted advertising that changes on a regular basis.

The idea of a computer that reports back on your usage (dialling into the internet by itself to do so if you do not use the net frequently enough yourself) is a marketeer's dream.

The company's launch has provoked immediate questions from privacy advocates, who worry about the sale of personal data. I am more willing to trust Free-PC on this; when it can make money easily by selling only aggregated data, why should the company jeopardise its future by invading people's privacy?

One business risk is about PC usage itself - unlike cellular phones or set-top boxes, where the usage of the product is the activity that generates continuing revenues, it's possible to use a PC heavily without benefiting advertisers. How will Free-PC ensure users do more than simply run spreadsheets or word processors?

Five years ago, this would have been a real concern. Today, the internet is such a compelling medium that it has become the reason why most people buy computers. So Bill Gross, founder of IdeaLab, the company that spawned the idea, probably has little to fear from users who unplug their PC from the phone.

The company will start to ship in the second quarter of 1999, but it is likely that usage data will be sent over the internet in encrypted form - so if you fail to use your computer as promised, Free-PC can find out about you as quickly as a jail discovers that a prisoner on home leave has disabled his electronic beeper.

Some pundits have raised concerns about the demographics of users. The obvious worry - that people won't tell the truth about what kind of car they have or how much they earn - is probably simple to lay to rest. In the United States, it is a simple matter to cross-check answers against databases of drivers' licences, credit card companies and zip codes.

A pundit quoted online last week worried that the fact the PC is free would attract exactly the poor customers advertisers don't want to reach. This seems unlikely; wealthy Americans are often every bit as keen on bargains. The 500,000 respondents in the first week will allow the company to cherry-pick the best 2 per cent of potential customers.

How long will the model take to spread outside the US? Probably a year, because consumers in most other industrial countries have to pay for local phone calls.

There are other possible business models. How about free PCs in libraries, paid for by advertising? The lack of targeting and unattractive demographics would be a disadvantage - but in simple hours of use per day, the idea could easily make sense.

Either way, the moral for internet watchers is clear. Free-PC, and imitators that will follow, could help push the internet into the mass market faster than anyone today imagines possible.

tim.jackson@pobox.com

PEOPLE

PEOPLE ON THE MOVE

Société Générale de Surveillance hires diplomat

Société Générale de Surveillance, the world's biggest inspection and testing company, has hired **Rolf Jeker**, 52, a Swiss diplomat, in a bid to restore the fortunes of its government inspection contracts business, where it is the world market leader.

SGS has traditionally had a 70 per cent share of the market for providing governments of developing countries with pre-shipment inspection services. Its service involves checking shipment details, such as price, quantity and quality, and is designed to help governments collect customs revenues and prevent capital flight.

In the past it has been the backbone of SGS's business. However, SGS's profits collapsed last year after it lost important contracts in Indonesia and Pakistan and its reputation has been tarnished by its association with money laundering allegations made against the family of Benazir Bhutto, the former Pakistan *prime minister*.

SGS's decision to hire a diplomat to head the most politically sensitive part of its business is the latest sign of the rebuilding of its management team in the wake of last year's boardroom upheavals which culminated in the ousting of Salina Amorini, a member of one of the founding families and company chairman.

Jeker, who has a PhD from the St Gallen business school, has been the interim head of the Swiss Federal Office for Foreign Economic Affairs prior to the arrival of David Syz, 54, a Swiss industrialist. Jeker has worked in over 80 countries and is also chairman of the Swiss export risk and investment risk guarantee board. He joins SGS's executive board in May replacing Serge Pahud, one of Salina's longest-serving lieutenants. Meanwhile, Louis Akkermans, another long-serving SGS executive, has announced his retirement and he will be replaced on the executive board by **Paul Albrecht**, 47, a Belgian, who has been with the group since 1976 and currently heads its Spanish operation.

William Hall, Zurich

Jeker: to SGS

Green steers Virgin Trains

Chris Green, formerly a high flying manager in the UK's state-owned British Rail, is to get another chance at running trains when he takes over as chief executive at Virgin Trains later this month.

Green, 55, faces one of the most challenging jobs in the railway industry, managing the introduction of Virgin's new tilting trains and dealing with the £2.1bn upgrading of the west coast main line being undertaken by Railtrack.

Modernising one of Britain's busiest rail routes while maintaining a reasonable service will not be easy, especially since the project involves high-tech signalling which has contributed to long delays in completing London Underground's Jubilee Line extension. Virgin is already under pressure for poor quality of service.

Green has spent the past two years heading the business consulting group of Gibb, a UK engineering consultancy, where one of his tasks was to help Virgin draw up proposals for *Eurostar* services to the Midlands and the north.

Green's connection with Richard Branson's Virgin group goes back to the early 1990s when the two men worked on a plan for Virgin to run trains on the main east coast line. This project was overtaken by the privatisation of the entire BR network.

Green was appointed by BR to head the sale of Scotrail but he dismayed the government and many in the rail industry by resigning abruptly in February 1995 in disgust at the way BR was being broken up.

Charles Batchelor, London

New names at SA Breweries

South African Breweries, the world's fourth largest brewer which last week unveiled the pathfinder prospectus for its London listing, is beefing up its board with the appointment of four new non-executive directors.

They include **Lord Renwick of Clifton**, the British ambassador to South Africa from 1987 to 1991 and to the US for the next four years. He is already a director of Billiton, British Airways, Canal Plus, Compagnie Financière Richemont, Liberty International and Robert Fleming Holdings – owner of the investment bank handling SAB's London debut.

He will be joined by **Sir Robert Fellowes** who recently stepped down as the Queen's private secretary after eight years in the job. Now vice-chairman designate of Barclays Private Banking, Sir Robert joined the royal household in 1977 after a career in the City as a discount broker.

The other two new directors are **Hugh Collum**, chairman of Chiroscience, the biotechnology company, and **Miles Morland**, chairman of Blakeney Management, the emerging markets fund manager.

Collum retired from SmithKline Beecham at the end of last year after nine years as chief financial officer.

He had previously been finance director of Cadbury Schweppes and was a member of the Cadbury Committee on the Financial Aspects of Corporate Governance. His existing non-executive directorships include Safeway and BTR Siebe.

Morland spent 30 years in investment banking, latterly with First Boston. He set up Blakeney which has $300m under management and is one of the largest investors in sub-Saharan Africa.

Donald Gordon, who is to retire as chairman of Liberty Life, is standing down as an SAB director. Among the existing non-executive directors, that leaves Cyril Ramaphosa, the former trade union leader and African National Congress politician, Michael Levett, chairman of Sanlam, South African Mutual Life, and Hank Slack, Minorco chief executive.

John Willman, London

Dunn to ASM Lithography

Doug Dunn, the Philips director felled last October, has a new job that means he not only stays in the Netherlands but returns to his old stamping ground in the semiconductor business. The 54-year-old Briton, who formerly worked for Plessey and Motorola, is to be the next chairman of chipmaking machinery specialist ASM Lithography.

He joins the board in April and takes over at the end of the year from Willem Maris, who is retiring after a 10-year stint.

But the move may bring with it a few awkward moments. For a start, Philips is ASML's largest shareholder and appoints two of the six-strong supervisory board. The electronics group is committed to holding its 24 per cent stake at least until spring next year, so Dunn's early months are going to spent with former colleagues looking over his shoulder.

Dunn, who headed the consumer electronics activities of Philips, left after it rang up unexpectedly heavy losses on its mobile phones venture with Lucent Technologies of the US.

And there lies a second potential problem: only last month ASML entered a co-operation pact involving Lucent, to develop electron beam technology for use in chip production.

Gordon Cramb, Amsterdam

New chairman at Wellcome

The world's richest charity, the Wellcome Trust, is to have a new chairman. **Sir Dominic Cadbury**, chairman of Cadbury Schweppes, will succeed Sir Roger Gibbs, who has overseen an extraordinary period of growth during his 10 years in charge of the trust.

This year Wellcome will spend £400m ($656m) on medical research, eight times more than in 1989, and its assets are worth £11.7bn. The trust plays a powerful role in UK science, as it showed last summer when it agreed to match the government's £300m contribution to the £600m Joint Infrastructure Fund for academic research facilities. And internationally it is the largest single contributor to human gene sequencing.

The trust's wealth used to depend on its ownership of Wellcome, the drug company, but Gibbs has masterminded the diversification of its assets – a process that concluded with the 1995 take-over of Wellcome by Glaxo.

With his financial background in the City of London, Gibbs, 64, is understandably proud of the trust's investment performance, which has consistently beaten most market indices. But he feels that Wellcome would benefit from "having an outstanding business leader as chairman as it enters the new millennium".

Cadbury, 58, has devoted his career to the family chocolate and soft drinks firm. He was chief executive of Cadbury Schweppes from 1984 to 1993 and has been chairman since 1993.

He will become a governor of the Wellcome Trust on June 1 and take over as chairman on January 1, 2000 – four months before his scheduled retirement from Cadbury Schweppes.

Clive Cookson, London

Wellcome aboard: Michael Dexter (standing), trust director; Sir Dominic Cadbury (left), chairman designate; and Sir Roger Gibbs, chairman. Sir Henry Wellcome (founder) is pictured and in bronze

Moving places

● **Robert Brown** has been promoted to president and chief executive officer of Bombardier. He joined the Canadian-based group in 1987 and latterly has been president and chief operating officer of Bombardier Aerospace.

● **Gerard van der Stelt**, 41, a main board director of NCM Group will take over as chairman of the managing board of NCM Holdings in March. He succeeds Maarten Hulshoff who is taking up an appointment as chairman of the managing board of Rabobank International.

● LVMH, the luxury goods group, has appointed **Thierry Andretta** president and chief executive officer of Celine, its producer and distributor of leather goods, fashion accessories and ready to wear apparel.

● EasyScreen, which designs dealing systems for futures and option markets has appointed **Peggy Ogorek** managing director of its new Chicago office which is spearheading its US sales operation. In 1990 she was elected the first female director of Chicago Board of Trade.

● Control Risks, the specialist business risk consultancy has made a series of new recruitment and office openings. **Larry Gurwin**, joins from the US Senate Permanent Sub-Committee on Investigations to lead the investigative team in Washington DC. **Mike Horner**, former assistant commissioner of the Royal Hong Kong Police, joins Control Risks to direct its new Singapore office. **Jim Wygand**, has joined to head up the Brazilian operations in Saõ Paulo. He was most recently managing director of Kroll Associates in Saõ Paulo. **Tom Sterner**, formerly a director of PricewaterhouseCoopers' Business and Investigative Services, joins as associate director of the New York office. **Don Collins**, who joins Control Risks' London office as fraud investigations manager is the former investigations manager at Fimbra (one of the original City of London regulators) and latterly worked for the De Vere consultancy.

● Deutsche Postbank's supervisory board has appointed **Wulf von Schimmelmann** management board chairman.

● **Ronny Vansteenkiste**, head of organisational learning and change at Joseph E. Seagram & Sons, has been appointed to director management & organisation development Philips, The Netherlands.

● **Bill Cuthbert**, 39, has been appointed to the managing board of Rabobank International, the corporate and investment banking arm of the Rabobank Group.

● The international law firm of Paul, Weiss, Rifkind, Wharton & Garrison has announced that **Michael Gertler** has joined the firm as consultant and co-head of the Asia Communications Group, resident in the firm's Hong Kong office. Formerly a partner at Denton Hall in Hong Kong and Baker & Mckenzie in Sydney, Gertler's practice has focused on regional media and telecommunications projects since 1989.

● With effect from April 1 **Bernard van Schaik**, 47, will be appointed director of the DSM Coating Resins business group, Zwolle, Netherlands. He is currently director of the Coating Resins business unit of DSM Resins. **Jos Schneiders**, 47, has been appointed director of the DSM Industrial Resins & Compounds business group, Zwolle, Netherlands. He is currently director of mergers and acquisitions and technology at DSM's corporate planning and development department. **John Prool**, 52, the current director of the Industrial Resins & Compounds business unit, has been appointed director of manufacturing excellence as well as operational excellence coordinator.

People on the Move is edited by Lisa Wood. Phone 00 44 171 873 3605.

BUSINESSES FOR SALE

AUCTIONS

CONTRACTS & TENDERS

Invitation for Concession Tender
MUNICIPALITY OF SOFIA, BULGARIA WATER AND WASTEWATER SYSTEM

The Tender Commission on behalf of the Municipality of Sofia, Bulgaria, announces a multi-round tender for the selection of a Concessionaire to manage, operate and finance the Sofia Water and Wastewater System as set out in the decision of the Sofia Municipal Council for the opening of a concession procedure promulgated in the State Gazette No. 3 on 12 January 1999 (the "Decision").

Tender Documents for Round 1 ("Tender Documents") are available from 19th February, 1999. Submissions from interested parties for pre-qualification must be delivered to the Municipality of Sofia at the address set out in the Tender Documents prior to 4 pm on Tuesday 6th April 1999.

The terms of the tender for Round 1 are set out in the Tender Documents and the Decision.

Interested parties wishing to obtain Tender Documents will be required to complete a candidate information sheet, sign and return a Confidentiality Agreement and pay the sum of $2,500 and should contact:

Nikolay Nikolov or Peter Ridder
Project Manager
PricewaterhouseCoopers
2 Serdika Street
1000 Sofia, Bulgaria
Phone: 359 2 98 08 884
Fax: 359 2 98 00 404

Municipality of Sofia
12 February 1999

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BUSINESS SERVICES

THE ARTS

Just what the provincial doctor ordered

William Packer enjoys Dr Gachet's collection of Impressionists and loyal copies

Dr Gachet's is a familiar image in the canon of early modern art, the half-length figure of the Van Gogh portrait, a man of a certain age, reddish hair and wistful expression, in white boating cap and blue coat, whose head rests heavily upon his fist. But he is perhaps less familiar in his actual life, the provincial doctor who just happened to be the friend of greater men. If he is indeed remembered in any particular way, it is for the friendship he struck up with Van Gogh in the fatal summer of 1890, whom he treated in his last agony and drew on his death-bed in a rapid sketch.

But other artists had passed through Auvers-sur-Oise, the small town north of Paris where he lived, and he had been a collector and amateur of art all his life. It was a collection, however, that he kept to himself. His wife had died in 1875, and in his later years he grew increasingly reclusive, a tendency that clearly ran in the family, for after his death in 1909 his son, Paul, with no profession of his own, seems to have all but shut himself up in the house to cherish and protect the memory of his father and the artists he had known. In 1949, a childless and lonely widower, he gave Van Gogh's self-portrait and the portrait of his father to the national museums, followed two years later by a second, more comprehensive gift, that included several Cézannes along with works by Monet, Sisley, Pissarro, Guillaumin and Renoir, and with the great Van Gogh of the Church at Auvers thrown in at a bargain price. Finally, a further gift was made in 1954, that included five more Van Goghs. He died in 1962 at 89.

Not unnaturally, along with the general excitement at such splendid things coming to light at last, certain questions began to be asked. The doctor himself was known to have painted on his own account (signing himself Paul van Ryssel after the Flemish for his native town) and tried his

When is a copy a homage to a master, and when an intentional deception?

hand at etching and engraving. He copied works in the collection and set his son to the same task. A local girl, Blanche Derousse, was also set to copying, but working for the most part on a small scale in watercolour.

So when is a copy a useful and instructive exercise, a homage to a master, or an intentional deception? The public loves the idea of a fake embarrassing the experts, even while sucking in its cheeks in horror at the very idea, and the authenticity of the Gachet pictures is regularly questioned. The small study exhibition now at the Grand Palais looks at the matter yet again, critically, aesthetically, historically and technically, if only to lay it finally to rest.

Paul Gachet was born at Lille in 1828. He went to Paris to study medicine in 1848, where he remained in touch with a childhood friend, the painter Armand Gautier, whose full-length image of the young doctor, stiff and smart in his 1850s dress clothes, opens the show. Gautier introduced him into the Parisian art world of the Second Empire, victim of the ancient sympathy of medicine for the arts. After the siege of Paris and the fall of the empire, which he welcomed, he moved out of Paris, buying the house at Auvers in 1872. And there, in the great loop of the Seine and the valley of the Oise, he was perfectly placed to welcome the young painters drawn out of Paris by the light and landscape.

In the 1870s Pissarro, Guillaumin and Cézanne especially became particular friends. Artists get ill like everyone else and are notorious hypochondriacs, with payment in kind for services rendered often the easier transaction. Thus the doctor's collection grew, and while particular works are not necessarily spectacular, they are generally well chosen – the misty Guillaumin riverscape with barges, and the reclining nude; the Monet bowl of chrysanthemums; the pink Pissarro house in the snow; the fresh little Cézanne still-life of green apples, and the cottages at Auvers crossroads. It is only with Van Gogh, and the special circumstances of those last 10 weeks of brilliant, frantic, ultimately tragic effort, that the spectacular masterpieces pile up – the church, the portraits, the garden – and with them the problems.

Set out here, however, they hardly seem like problems. Dr Gachet's own work as painter is worthy but pedestrian, the graphic work if anything a little the stronger. There is no evident originality, nor even independence, but only a humble interest in following his betters. The possibility that there could ever be confusion between his hand and those of his artist friends is remote. And as with the father, so with the son.

The distinction between the worthy copy and the fake is clear enough. For, rather more than the mere image, the fake must reproduce not just line and colour but the very touch of the brush and the substance of the paint, the characteristic pull and spread of the pigment and the trace of the brush. When even artists themselves can never repeat their work exactly, the merely adequate fake requires rather more subtlety and finesse certainly than the Gachets, père et fils, ever possessed. The show celebrates their luck and their loyalty in their friends, the remarkable originals, copies galore, but no fakes.

Doctor Gachet – Friend of Cézanne and Van Gogh: Grand Palais, Paris 8, until April 26, then on to the Metropolitan Museum, New York, and the Van Gogh Museum, Amsterdam.


For a friend: Van Gogh's 'Mademoiselle Gachet au Piano' shows the bond between artist and doctor


Kim Begley makes a fine Parsifal, albeit resembling a Rastafarian Tarzan at the outset — Alastair Muir

Wrong route to the Holy Grail

Andrew Clark admires the music but finds the ENO's nihilistic 'Parsifal' lacks theatrical bite

Anyone with hang-ups about Wagner in general, and *Parsifal* in particular, is going to love English National Opera's new production. Nikolaus Lehnhoff's staging, conducted by Mark Elder, removes all the religious symbols, takes an unsanctimonious view of the music, and saves its most telling image for the end: Kundry, followed by Parsifal, leads the knights of the Grail along a railway track that disappears offstage. To the future? To a new society? The message seems to be that there is no Holy Grail. No one reaches their destination; life just goes on. The path itself is the goal. What is important is to continue travelling.

This is a nihilistic *Parsifal*. The sheer breadth of Lehnhoff's reference points saves it from becoming shallow, and the standard of casting and conducting is from ENO's top drawer. But apart from that final scene, the production is desperately short of theatrical bite. Lehnhoff's ideas about the piece have not translated well to the stage. He has replaced all the traditional iconography with a new set of icons, which prove less effective and even more confusing. That is why, for those like myself who believe in the work's numinous glow, Saturday's first night at the London Coliseum was so disappointing.

In keeping with Lehnhoff's description of *Parsifal* as a "science fiction fable", his designers, Raimund Bauer and Andrea Schmidt-Futterer, opt for a fantasy style, mixing the futuristic and the medieval. But the fantasy refuses to take off because much of the symbolic baggage is of the heavy Teutonic variety. The concrete cavern in the opening scene, for example, is shorthand for Gurnemanz's bunker mentality; the giant meteorite represents the impending impact of a natural force, namely the "innocent fool".

Not all the imagery is as blunt as this. Parsifal resembles a Rastafarian Tarzan at the outset, Darth Vader (*Star Wars*) at the close. Amfortas is a crackpot crusader, Klingsor a Samurai spear-thrower. Most of the action takes place on an upward-curving ramp, littered with the detritus of civilisation (Act 1), mummified knights (Act 2) and the tombs of ancient warriors (Act 3). There are also references to Buddhist philosophy.

What grates is not so much the stylistic jumble, more the dramaturgical inconsistency. We're left wondering if the Grail is a mode of behaviour or a column of light. If the Flowermaidens are insect-eating plants, why does Kundry herself resemble an insect, casting off layers of skin to attract her victims? Ideas that *should* have worked – such as Lehnhoff's description of the Grail as a classic "elbow society" – are left unexplored.

Lehnhoff has replaced traditional iconography with a new set of icons which prove even more confusing

As in his Royal Opera production of *Palestrina*, the metaphysical/spiritual dimension proves elusive. This has nothing to do with the lack of rite or ritual in the Grail scenes, where Lehnhoff demonstrates the idea of a defunct, introspective society. No, the litmus test for any *Parsifal* is the Act 1 transformation scene, which should give the audience a sense of disembodied travel through time and space, and the Act 3 Good Friday scene. In each, the sterile glare of this production left me cold.

Elder and his cast do their best to breathe life and soul into Lehnhoff's concept. Kim Begley is as fine a Parsifal as I have heard: the tone is unfailingly heroic, and you will travel far to find a tenor who can act so naturally and yet so intelligently. He meets his match in Kathryn Harries's Kundry: she has the height and presence to dominate the stage, and despite the bad-hair-day wig, she makes the most of her opportunities – animal-like in Act 1, vampish in Act 2, shell-shocked in Act 3. Harries has never sounded better: a virtuoso performance.

Gwynne Howell's Gurnemanz, a survivor from ENO's 1986 production, is far less amiable this time round, but just as imposing, and the voice holds out surprisingly well. Jonathan Summers tends to overdo Amfortas's tottering, tortured anguish – it's almost a comic caricature – but he compensates with some vivid vocal acting. John Connell is the reptilian Titurel, Peter Sidhom a clarion Klingsor. Electronic enhancement does few favours for the bells or the chorus – though the children's voices are an unexpected bonus – and I'm not convinced by Richard Stokes's translation: "Service, service" (*Dienen, dienen*) sounds like Kundry is expecting a waiter to turn up.

This *Parsifal* adds handsomely to Elder's Wagnerian credentials. He knocks 45 minutes off the timing of his mentor, Reginald Goodall, but never gives the impression of haste. Elder conjures the instrumental radiance and melodic seamlessness that are the essence of this score, without quite capturing the full dramatic passion of Act 2. The production is shared with San Francisco and Chicago: despite its musical merits, they're welcome to it.

LONDON MOZART PLAYERS

Shades of 'Psycho'

The London Mozart Players celebrated their 50th anniversary last Thursday at the Royal Festival Hall. Mostly Mozart, of course: the 28th and 29th symphonies, the Concerto for Flute and Harp, and three concert arias. The latter were charmingly sung by the soprano Barbara Hendricks, and the concert was conducted by Matthias Bamert, the LMP's music director, under whom they have consolidated their international reputation. The symphonies were spotlessly played, and James Galway and Marisa Robles appeared together yet again in the concerto, amiable and serenely adept.

Amid all this easily digested Mozart, John Woolrich's new Concerto for Orchestra – commissioned for the occasion – sat oddly. It came in a single 18-minute-long movement, alternating between "loud, fast and raucous music" and "introspective corners". Woolrich's concerto doesn't aim to spotlight first-desk orchestral soloists, only to display "the virtuosity of a large group playing as one".

But Woolrich left his piece modestly under-described. In fact it's a tight neo-Classical sonata movement on the Schubertian model, with an exposition, a re-exposition that takes a new turn into the development, a central peroration in which both the "raucous" and the "introspective" material are combined, and a recapitulation with a brief, drained coda for *pp* woodwinds.

Intricate and yet transparent; original and bizarre. The dominant motif of the "raucous" sections is just a sequence of stabbing repeated notes (it reminded our arts editor of Bernard Herrmann's shower-music for *Psycho*), always preceded and followed by a chromatic flourish. The flourishes blossom elaborately in the repeated exposition and the recapitulation.

In the leanly scored "introspective corners", a few instruments at a time limn overlapping two- and three-note phrases, creating dusky harmonies. As one section succeeds another, furious chromatic scales are added; they scream upward to announce the "peroration", where the stabbing motif goes double-time under the declamatory phrases at half-speed. That, and the enriched recapitulation, will surely reveal a pungent *Affekt* on further acquaintance.

We scarcely felt the highs and lows in this temperate performance. Perhaps the trouble lay in the genteel noise which is all the LMP can make in this large hall; but perhaps it was Woolrich who found himself *needing* violent extremes when the terms of the commission restricted him to a Mozartean orchestra – no heavy brass, no percussion beyond timpani. In crude modern terms, we needed to hear a lot of it much *louder*.

David Murray

Concert sponsored by Nestlé; LMP season supported by Warburg Dillon Read.

INTERNATIONAL

Arts Guide

BERLIN

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Faust: by Gounod. Conducted by Sebastian Lang-Lessing in a staging by John Dew; Feb 19

BRUSSELS

OPERA
La Monnaie
Tel: 32-2-229 1211
Lady Macbeth of Mtsensk: conducted by Antonio Pappano in a new staging by Stein Winge, with sets by Benoît Dugardyn and costumes by Jorge Jara; Feb 16, 19, 21

CARDIFF

OPERA
Welsh National Opera
Tel: 44-1222-464 666
Peter Grimes: by Benjamin Britten. Carlo Rizzi conducts a new staging by Peter Stein. With sets by Stefan Mayer and costumes by Moidele Bickel. Cast includes John Daszak and Janice Watson; Feb 20

GLASGOW

OPERA
Scottish Opera, Theatre Royal
Tel: 44-141-332 9000
● The Magic Fountain: by Delius. Conducted by Richard Armstrong in a new staging by Aidan Lang, with designs by Ashley Martin-Davis; Feb 20
● *Der Rosenkavalier*: by R. Strauss. New staging by David McVicar, conducted by Richard Armstrong. The cast includes Joan Rodgers; Feb 18

LAUSANNE

EXHIBITION
Musée Cantonal des Beaux-Arts
Tel: 41-21-312 8332
Courbet – artist and promoter: more than 70 paintings by Gustave Courbet (1819-77), including landscapes, portraits and nudes. The exhibition concentrates upon Courbet's artistic output after 1855, especially during his exile in Switzerland; to Feb 21

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● London Symphony Orchestra: conducted by Myung-Whun Chung in works by Rachmaninov, with piano soloist Jean-Yves Thibaudet; Feb 18
● *London Symphony Orchestra and Chorus*: conducted by Myung-Whun Chung in Mahler's Symphony No. 2, with soprano Andrea Dankova and alto Sara Mingardo; Feb 21

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● La Traviata: by Verdi. Michael Lloyd conducts a revival of Jonathan Miller's production; Feb 16, 19, 22
● Parsifal: by Wagner. Conducted by Mark Elder in a new staging by Nikolaus Lehnhoff, with sets by Raimund Bauer and costumes by Andrea Schmidt-Futterer. Cast includes Kim Begley and Jonathan Summers; Feb 17, 20

LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in the world premiere of John Adams' Naive and Sentimental Music. Programme also includes works by Haydn and Schumann. With cello soloist Heinrich Schiff; Feb 19, 20, 21

MANCHESTER

CONCERTS
Bridgewater Hall
Tel: 44-161-907 9000
● BBC Philharmonic: conducted by Peter Maxwell Davies in the UK premiere of A Reel for Seven Fisherman, and by Vassily Sinaisky in works by Beethoven and Shostakovich, with piano soloist Lars Vogt; Feb 20
● Mikhail Pletnev: recital by the pianist of works by Chopin, Grieg and Schumann; Feb 17

MILAN

OPERA
La Scala
Tel: 39-02-88791
La Forza del Destino: by Verdi. Conducted by Riccardo Muti in a staging by Hugo de Ana, with a cast headed by Inès Salazar and José Cura; Feb 16

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Prague Symphony: conducted by Tomás Koutnik in works by Dvorák and Mendelssohn-Bartholdy, with violin soloist Pavel Sporcl; Feb 19
● Salzburg Mozart Orchestra: conducted by Hubert Soudant in works by Beethoven and Tchaikovsky, with piano soloist Valéry Afanassiev; Feb 20

NEW YORK

DANCE
New York City Ballet, New York State Theater
Tel: 1-212-870 5570
Celebrating Five Decades of Repertory: continuing 50th anniversary celebrations; Feb 16, 17, 18, 19, 20, 21

EXHIBITION
Guggenheim Museum
Tel: 1-212-423 3500
www.guggenheim.org
Jim Dine: Walking Memory, 1959-1969. More than 100 works make up this survey of the American artist, including photographs, *paintings* and performance pieces; to May 16

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Moses and Aron: by Schoenberg. Conducted by James Levine in a staging by Graham Vick, with sets and costumes by Paul Brown. Cast includes Philip Langridge and John Tomlinson; Feb 17, 20

NEWCASTLE

CONCERT
City Hall
Tel: 44-191-261 2606
Royal Liverpool Philharmonic Orchestra: conducted by Jun'ichi Hirokami in a programme of French music including Canteloube's Songs of the Auverge and Berlioz' Symphonie Fantastique, with mezzo soprano Della Jones; Feb 19

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Christoph von Dohnányi in works by Donatoni, Bloch and Beethoven. With cello soloist Eric Picard; Feb 17, 18

Théâtre des Champs Elysées
Tel: 33-1-4952 5050
Orchestre National de France: conducted by Pinchas Steinberg in works by d'Indy, Saint-Saëns and Prokofiev, with piano soloist *Jean-Philippe Collard; Feb 19*

OPERA
Théâtre des Champs Elysées
Tel: 33-1-4952 5050
Opéra National de Lyon: Zelmira, by Rossini. Conducted by Maurizio Benini in a staging by Yannis Kokkos. The title role is sung by Mariella Devia; Feb 17

ROME

EXHIBITIONS
Galleria Nazionale d'Arte Moderna
Tel: 39-06-322 981
Picasso 1937-1953: The Italian Years. Around 70 works, including paintings, sculptures, ceramics and drawings, from the period between 1937 – when Guernica was shown at the Exposition Universelle in Paris – and 1953, when Picasso himself organised major exhibitions in Milan and Rome; to Mar 14

Palazzo delle Esposizioni
Tel: 39-06-474 5903
Algardi: The Other Face of the Baroque. First major exhibition devoted to Bernini's great rival, the Bolognese artist Alessandro Algardi. Includes 66 sculptures in bronze, terracotta, marble and silver, and 47 drawings; to Apr 30

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
NHK Symphony Orchestra: conducted by Eugeny Svetlanov in works by Prokofiev and *Beethoven, with piano soloist* Nikolai Petrov; Feb 17, 18

VIENNA

EXHIBITION
KunstHausWien
Tel: 43-1-712 0495
Jean-Michel Basquiat: Paintings and Works on Paper. 100 works on loan from the Mugrabi Collection make up the first show in Austria devoted to the black-hispanic US artist, who died in 1988; to May 2

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19.30: *World Business Today*
22.00: *World Business Today Update*

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05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

PETER MARTIN

Invest in new habits

Fund managers should move towards absolute performance measures and away from a geographical spread of assets

It is time for investment managers to dump two powerful habits of mind: relative performance measurement and geographical asset allocation. Both have outlived their usefulness.

This strikes at the heart of the investment process in the big institutions that dominate global stock markets. A shift in thinking here could have profound implications for individual shares. Over recent decades, fund performance has come to be measured not in absolute numbers (up 10 per cent, down 5 per cent), but in relative terms. Managers are judged on how much they outperform another yardstick, such as a stock market index.

So a year in which the fund loses money can still be a triumph if that loss was less than the overall average. Conversely, a year with strong performance can still be a bad one for the manager if the market as a whole did better.

This might seem a sensible approach. After all, managers deserve only faint praise if they have merely piggy-backed on the market as a whole. But though managers may be in some sort of competitive game, the ultimate beneficiaries – pension fund members or insurance policyholders – are not. They are looking for absolute performance.

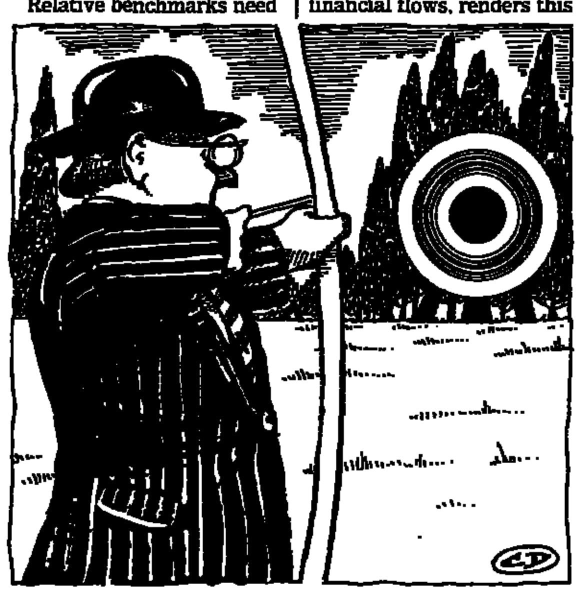
In the UK, the fetish is taken to extremes: the yardstick against which pension fund managers are measured is the performance of other big pension funds. So even if the fund loses money over the year, and even if it does worse than the overall market, the fund managers are still heroes if they beat their peers.

It is perhaps not surprising that these two versions of benchmarking have come into vogue during a two-decade bull market. If the underlying trend in the market as a whole is upwards, then what counts is the relative performance achieved by selecting those that are doing best and avoiding those that are doing worst. With relative outperformance achieved, growth in value is assured.

The first calls for absolute targets are coming from investors in Asia. Some of them are telling investment managers that they want to achieve a specific numerical return, regardless of what the overall market is doing. In regional markets that have swung so abruptly in the past 18 months, a steady if unambitious absolute return suddenly looks more attractive.

If developed-country stock markets are about to enter a period in which they will not benefit from the steady upwards march of the past two decades, absolute performance targets will make a comeback there.

Relative benchmarks need



But they are most helpful as supplementary measures, to be used as a check once performance against absolute returns has been assessed.

The task of setting absolute targets is itself an educative process. How much of a return can one reasonably expect from equities in a developed economy over the long run? How much risk is associated with any given level of absolute return? How much is acceptable? Pension fund trustees or other investors would benefit from discussing these issues.

A similar helpful dialogue would follow the dumping of geographical asset allocation. Within the euro-zone, this has been called into question by the creation of a single currency. But really, it is questionable worldwide.

Investors have viewed the world as a collection of national economies, and national baskets of stocks. The interdependence of the world economy, and of financial flows, renders this

international companies have global exposure. True, they are ultimately subject to their home country tax laws and corporate governance rules. But these are weak foundations on which to base a theory of asset-allocation that assumes big differences between countries – especially as tax and governance rules are converging.

Suppose that investment funds had divided the global universe of stocks not by country but by size and quality. They would have looked for big international companies with strong market franchises and internal competitive advantages. The home base of these companies would have been irrelevant.

A portfolio built around this approach would have avoided European investors' biggest structural mistake of the 1990s, their underexposure to Wall Street. Since so many of the world's strongest companies are American, they would naturally have formed a substantial portion of a genuinely international investor's portfolio. This approach would also have focused the funds on those Japanese companies with the strongest global market positions, which have best survived the Tokyo market's slide.

There are – at last – signs that investment banks and index setters are starting to recognise this issue. Morgan Stanley Dean Witter now produces a regular survey of companies around the world that have achieved sustainable competitive advantage. And FTSE International, which manages UK and European indices, is considering constructing an index of companies with global exposure.

More important than any of these tentative steps, however, would be a leap of faith on the part of pension funds and insurers: towards absolute performance standards and away from geographical asset allocation. At the very least, a debate on these issues would tear away the intellectual straightjacket in which institutional investors have confined themselves.

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LETTERS TO THE EDITOR

Luxury car logic scores top marks

From Mr Andrew Campbell.

Sir, I teach a case on the European luxury car industry and Peter Martin's analysis of BMW's plight would be awarded my top marks ("Cut to the core", February 9). If you apply his logic – defend the luxury niche or build a competitive platform strategy – to other situations in the industry, you can conclude that:

■ The Chrysler/Mercedes merger is misguided. Mercedes has too many platforms on its own and there is little appetite for rationalising platforms across the two companies. The merger will, therefore, serve only to take Mercedes' eye further off the luxury ball.

■ VW is likely to be the long-term winner in the mass market because of its uncompromising platform strategy across multiple brands: VW, Audi, Skoda, Seat. Whatever BMW chooses to do, Rover's position in its portfolio needs to change.

■ VW, with Audi, may even win the luxury battle as well. If Mercedes and BMW continue to dither between a luxury focus and an aggressive platform strategy, VW may be able to use its cost advantage to position Audi as a better value luxury brand and snatch enough market share to make a focused strategy at the luxury end untenable.

Andrew Campbell,
director,
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UK

No one will stop the bully

From Mr Merlin Batchelor.

Sir, Spain has imposed ultra-strict controls at its frontier with Gibraltar, at a time when we are trying to unite Europe, not wage war against each other. This is an attempt by Spain to destroy Gibraltar's tourist industry, which it needs to survive, and to make life difficult for the thousands of citizens who need to commute across the frontier daily. We have never harmed Spain, yet we are imprisoned here and no one seems to want to help; perhaps because we are so small we are considered insignificant?

In everyday life, if a child is bullied, he can seek out an adult to sort out that bully. Gibraltar has pleaded to the adults, Britain and the European Council, to help sort out the bully, but they appear unable to help. Why do they let Spain get away with its victimisation of its little neighbour?

Merlin Batchelor,
P. O. Box 652,
Gibraltar

War of the press release undermining WTO

From Prof Gavin McFarlane.

Sir, If the World Trade Organisation and its new dispute settlement forum is currently under threat, this is largely due to the inflammatory and exaggerated comments that continue to be made by parties to disputes while they are in progress. This failing has been particularly true during the EU-US banana case, where trade representatives at the highest level in both Brussels and Washington have indulged in a war of press release and official statement that has had the effect of undermining the authority of the WTO.

When the next trade round starts its deliberations, the Dispute Settlement Understanding should be expanded to include the sub judice principle, in order to prevent what amounts to contempt of court by litigants. For its part, the WTO should tighten up its own procedures to ensure that experts adjudicating on its dispute panels are entirely above any suggestion of the kind of involvement with interested parties that recently afflicted Britain's House of Lords.

Gavin McFarlane,
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Governed by traffic wardens wrapped up in parking tickets

From C.T. Sentance.

Sir, With reference to Philip Stephens' article "End of leadership" (February 12): may I suggest a reason? When governments the world over make themselves responsible for matters such as parking tickets (and spend most of their time wrapped up in them), they attract the sort of people who are interested in power through controlling such items.

Franklin D. Roosevelt, for all the implications of the New Deal, would never have been interested in the US presidency on the current basis. As for Churchill...

If and when governments reduce their interference in small matters, maybe things will change: in other words, dream on.

C. T. Sentance,
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From Mr Harry Shutt.

Sir, Congratulations to Philip Stephens for getting it half right. His withering attack on official complacency in the face of looming global disaster is long overdue.

Yet he is well wide of the mark in blaming this indifference on the selfishness of the western middle-classes who allegedly will not vote for radical solutions – which in fact are scarcely allowed even to be discussed, even in the FT.

If we are seeking to explain the failure to find the resources needed to meet the needs of the former Communist world (referred to by Mr Stephens) – not to mention the collapsing Third World – despite the massive amounts of capital available globally, we need surely look no further than the unaccountable corporate interests that control this capital and also effectively determine the agenda of all the mainstream political parties – yes, and the media too. Until we can find leaders with the courage to try to force the breaking of this corrupt stranglehold on our supposedly democratic political process, the slide to catastrophe so commendably noted by Mr Stephens will continue.

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PERSONAL VIEW DAVID LASCELLES

The future of the City

London must clarify its goals if it is to fend off competition from Frankfurt and Paris

The City of London is in a fix. For the first time in its long and successful history as a financial centre, it faces competition. And well-organised competition it is too.

Paris and Frankfurt, its main rivals, have launched ambitious, centrally directed campaigns to exploit the business opportunities created by the euro. In Paris, for example, a promotion campaign has the backing of all the big banks, the stock exchange, the Banque de France, the city authorities and virtually all the French financial community. Its chairman is Marc Viénot, the head of Société Gé nérale and France's top banker. The organisation, Paris Europlace, has an annual budget of FF20m to spend on road shows, publicity, grand dinners at Versailles, and whatever else it thinks will lure in foreign business.

Significantly for France, this is a private sector initiative: the French state is not directly involved, recognising that its presence may not be a plus in trying to attract foreign, particularly American, banks. None the less, the French treasury has played a big role in encouraging the liberalisation of France's financial markets, and ensuring that the government bond market is open and well managed.

In Frankfurt, a very similar organisation, Finanzplatz Deutschland, runs Germany's promotion campaign under the direction of Mr Rolf Breuer, chairman of Deutsche Bank. Again, virtually the entire financial community is behind it, including the Bundesbank.

Turn to London, and what do you see? A loose alliance of the Bank of England, the City Corporation, British Invisibles, London First, and various other groups all trying to promote the City, but without clear leadership or a common sense of direction.

Two quick comments in parentheses. Despite the apparent lack of order, this alliance does an extraordinarily good job with relatively slender resources. Bankers in Frankfurt and Paris talk admiringly of the "cohesiveness" of the City, its strong instincts and pragmatism. Also, if the group has a leader, it is the Bank of England, which has probably done more to prepare Europe for the euro than any other central bank.

City of London: faces monolithic competition

But neither of these points removes the basic problem for the City, which is that it faces monolithic competition, without being able to be monolithic itself. It would be simplistic to suggest that the City could create a Paris or Frankfurt-style booster organisation. It is a far bigger and more complex place than its European rivals.

Indeed, if the City were to become monolithic it would probably destroy the very depth and diversity that are its greatest strengths. Can one even imagine a body that could speak for the whole City? Hardly.

Still, the the present situation is far from satisfactory. Recent events have shown the City to be unclear about its objectives, quick to squabble, and liable to trail rather than lead various developments, for example in the area of new technology, and in developing new products for the euro. This is not the way to deal with organised competition.

At another level, how can the UK Treasury be expected to represent the interests of the City in the growing number of Brussels-based forums, when the City itself is unable to articulate its goals?

If the answer is not to create a monolithic body, much can still be done to provide a clearer sense of where the City's interests lie so that its many constituencies can march more closely in step, and anticipate rather respond to events. This calls for a more vigorous public debate to clarify the issues. Here are some suggestions.

1. What should the City's aims be? Is it to have the most "bums on seats" or should it go after quality rather than quantity? If sheer numbers is what London is interested in, it could simply cut taxes, like Dublin has. But the target market should surely be Europe's financial decision-makers, the people who buy and sell, who decide how assets are to be allocated. Such financial types are gregarious, and once you have critical mass, the rest follow.

2. If the aim is to have financial decision-makers, what is it that makes them stay? A congenial regulatory and tax environment, good communications, good schools, fine restaurants? In which case London may be wasting its time investing in exchange technology. The money would be better spent improving the Underground.

3. Should the City aim to be the operator of the big organised markets? Traditionally, yes. But in today's electronic world, markets go wherever dealing is cheapest. The Bund contract (German government bonds) fled to Frankfurt to take advantage of low-cost technology. But it could migrate again to whichever centre develops even cheaper technology, and even then the people who actually do the trading may be somewhere else. Markets may have become too fickle, and it may be a mistake to focus too much attention on them.

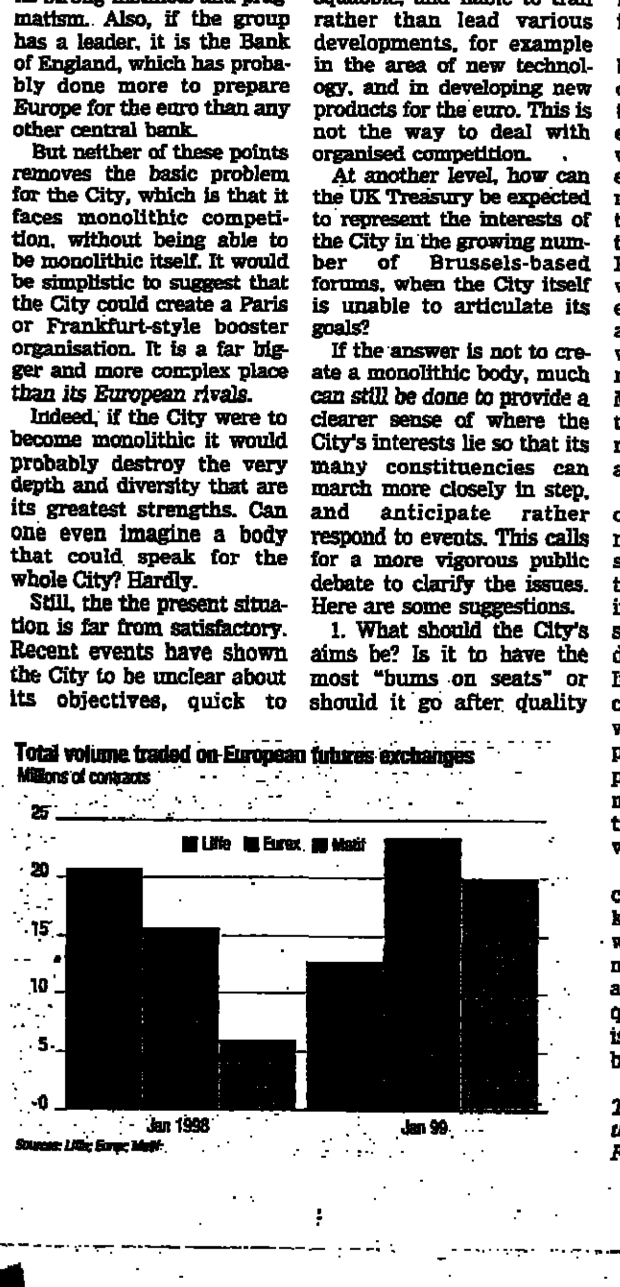
4. Whether the UK is in or out of Emu, it will lose business to Paris and Frankfurt simply by virtue of the fact that their markets are growing from a low base. This should not cause alarm and despondency in London. Instead, London should concentrate on those areas where rivals cannot compete: international markets, pan-European decision-making, centralisation of trading and investment that will result from the euro.

The City is, rightly, suspicious of pat solutions: it knows that markets do not work that way. And there may be no definitive answers to any of these questions. But at least the issues facing the City should be identified and understood.

The author is co-director of the Centre for the Study of Financial Innovation.

Total volume traded on European futures exchanges

Millions of contracts



Source: Liffe; Eurex; Matif

FINANCIAL TIMES

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Tuesday February 16 1999

Stitching up designer genes

Those disposed to scare the public with monsters have found a new one: Frankenstein food. Except that it is not new: genetically modified plants have been around for a decade and a half. They have been extensively tested; they are grown in more than 30m hectares of the Americas and south-east Asia; and the products are widely consumed without, it seems, any ill effects.

So what is the problem? A group of scientists has refocused attention on a UK research finding that a diet of genetically modified potatoes can damage rats. The Rowett Research Institute in Aberdeen, where the study was conducted, had earlier disowned the results, but a few experts now say they could have implications for human consumption of GM crops, such as maize.

An unedifying combination of scaremongers, 'green' activists and rightwing politicians have jumped on the bandwagon to back calls for a moratorium in the experimental planting of crops in the UK. The government is right to resist them, but it is right also to endorse EU rules for clearer labelling of products. GM crops are not yet grown commercially in the UK, but there is every reason to continue with experiments. For if such crops can harm the environment, the sooner we have data from controlled experiments the better.

Meanwhile, the public has a right to know what it is eating.

Politicians cannot ignore anxieties that are widespread in Europe, even if they are the product of ignorance. Governments need to be aware that the dismal saga of mad cow disease (BSE) has eroded confidence in official pronouncements – particularly in the UK. An effort must be made to restore some balance.

First, it should be admitted that there may be environmental dangers, especially from crops made resistant to weed killers. Second, governments should note that, in the developed world at least, there is no pressing need to find new ways of raising the efficiency of food production.

But it must also be made clear that the danger to human health from existing GM foods is negligible. That does not absolve the authorities from great caution in authorising new products. But provided that consumers are given maximum information and adequate choice, there is no general case for obstructing international trade or the scientific development of genetically modified organisms.

As with many other new technologies, there are dangers that need to be controlled, but these should not obscure the big potential gains that mankind might reap from their careful and sensible development.

Open skies

Signs that the US and the UK are ready to agree an "open skies" accord are to be welcomed, mainly because this could help open the door to a transatlantic open skies agreement between the US and the EU. The airline industry should be run to best serve passengers. Too often governments call the shots, allocating the seats at the front to the supposed interests of national carriers, and bumping the consumer interest into steerage.

Negotiations on a US-UK open skies agreement, which start this week, will be a long and difficult process. The US stalked out of negotiations last October. Senators – including Jesse Helms, chairman of the Senate foreign relations committee – would like to scupper this renewed attempt.

Beyond politics, a phased liberalisation of UK aviation also raises difficult technical issues. Regardless of restrictions, US airlines will have to understand that Heathrow – the world's busiest international airport – is full. They cannot simply demand slots at the best times, any more than Virgin or British Midland can. Allocating slots through deals and negotiations is clearly inefficient, and favours incumbents unfairly. Slots should be open to trade, something the European Commission seems strangely unwilling to countenance.

However, if these difficulties can be overcome, a US-UK agreement could pave the way to free competition in the US and EU. At present, the European Commission has only a very limited mandate to negotiate on behalf of member countries, not least because the UK has been a vociferous opponent. Most EU countries, with the notable exception of the UK, have agreements with the US. A UK accord could let the sensible idea of transatlantic free trade out of the hangar.

Such a deal is in the interest of European airlines, as well as the passengers that would benefit from greater competition and lower fares. Through a strategy of divide and rule, using the threat of regulation as a battering ram, the US has been able to negotiate access for its airlines to Europe while keeping its domestic market closed to competition. So much for a US commitment to free and fair competition. This is mercantilism at its worst.

The first step towards transatlantic open skies should be the lifting of restrictions on foreign ownership, currently more onerous in the US. Governments will have to acknowledge that good fares and service are more important than the flag on the tail. Indeed, there is no role for government in the airline industry beyond ensuring safety and competition. At a time when automobile, oil and pharmaceutical industries are consolidating, it is absurd that governments remain so determined to promote their national champions in the sky.

Chinese laws

The row between Beijing and Hong Kong over the rights of mainland Chinese to emigrate to the former British colony is of vital constitutional importance. It concerns the interpretation of the two very different legal systems operating in mainland China and in Hong Kong, and therefore the maintenance of the "one country, two systems" arrangement under which the territory reverted to China in 1997. Both sides need to act carefully to preserve the sanctity of that deal.

The problem is that Hong Kong's Court of Final Appeal; established after lengthy negotiations between Britain and China as the territory's supreme legal arbiter, has boldly asserted its jurisdiction, and its right to interpret the Basic Law, the post-handover constitution. The court decided that children from the mainland had the right to stay in Hong Kong if one parent was a permanent resident, even if they did not have a Chinese exit permit. In effect, the judges insisted that they had the right to interpret, and if necessary overrule, mainland laws where they conflicted with the Basic Law.

Beijing has reacted with anger, declaring that the decision itself was in violation of the Basic Law, that the Hong Kong court was setting itself above Beijing's own National People's Congress, and calling for the judgment to be reversed. But that is an overreaction that could prove counter-productive, and seriously damage confidence in the juridical independence of Hong Kong, which underpins its status as an international financial centre.

The decision of the Hong Kong court is unlikely to be popular in the overcrowded territory, and is certainly not what the Hong Kong government expected. Estimates of the number of new immigrants vary between 30,000 and 400,000, although the latter figure looks exaggerated. But that is not the point. The court decided unanimously on its interpretation of the law. If Beijing, or Tung Chee-hwa, Hong Kong's chief executive, now seeks to interfere, it would be a devastating blow to the independence of the judiciary.

Neither side can afford to lose face, which makes a compromise more difficult. After 19 months of correctly and scrupulously keeping its distance, Beijing has seen fit to attack the judgment as an infringement of its sovereignty. Rather, it suggests a misunderstanding of Hong Kong's legal system. The Hong Kong government also seems to have been taken by surprise.

It should not be impossible for the latter to put the judgment into effect, but keep relatively strict administrative controls on the inflow of immigrants. As for Beijing, it must recognise that maintaining confidence in Hong Kong, and maintaining confidence in China, are two sides of the same coin.

Trigger-happy justice

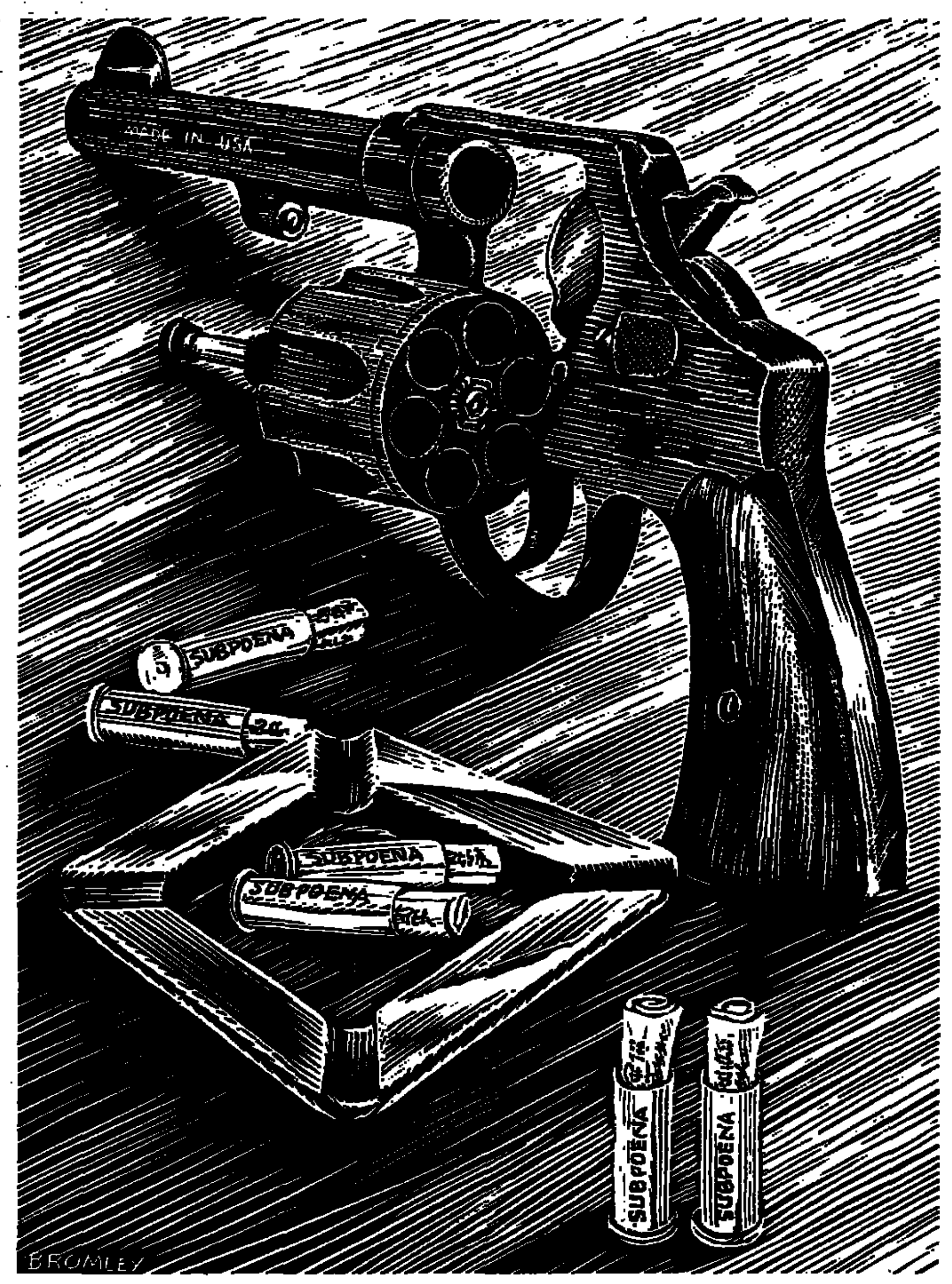
Patti Waldmeir argues that the US legal system is being asked to solve political and social disputes that would be better addressed by other means

Are Americans relying too much on the judiciary to solve problems that the political system or society as a whole could handle more efficiently, more wisely, and more fairly? That question has been raised by a host of legal decisions in the past week. They range from multi-million dollar cases brought by city governments against gun manufacturers to class-action lawsuits brought by stranded airline passengers. Even the Clinton trial focused on the issue of the rule of law.

Again and again, Republican prosecutors thrust forward the phrase "the rule of law" as a kind of rhetorical fetish. Day after day, they battled to defend the principle that no man is above the said law (and that none should be allowed to fly beneath its radar). In the end, their case succumbed to its very triviality. And the rule of law emerged from temporary exile in the land of farce.

But how did the sanctified principle of American democracy get involved in this sordid business in the first place? Is it just another example of America's cultural fondness for litigation? Partially, yes: for 200 years, matters of sex and politics were kept in a locked strongbox marked "private conduct". Now the law has broken that box open.

But lawyers only got a foothold in the Clinton matter because politicians had failed to keep the law at a distance. Unable to solve what was basically a political problem between Congress and the president, the Republican leaders turned themselves into prosecutors and the Senate into a court room. Other recent cases – for example, the handgun suits – show the same tendency to bring in the law where other means of settlement have been blocked.



All this has disturbed the delicate institutional balance at the heart of American life: between the legislature, executive, and judiciary – and more broadly between the law, politics and society as a whole.

In the Clinton case, the verdict has partially restored that balance by returning the rule of law, however temporarily, to its proper pedestal in the matter of sex and politics. But the larger question remains: have the courts been forced to step in because politics has failed to solve the policy problems of the 21st century? Should 12 randomly selected citizens and a judge create public policy for a nation?

These are not new questions: America's institutional balance is constantly shifting, and each shift provokes a battle between those who favour a greater role for courts in society, and those who would limit judicial policy-making.

But even as the Clinton trial wound down to acquittal, the law was busy trying to annex new territory. Consider the following items, from the past week alone:

● Several US cities are suing gun manufacturers to recover public money spent treating gun-shot victims, the cost of law enforcement, and even the drop in property values in black and Hispanic inner-city areas, where violence is rife.

● In California, a three pack-a-day smoker was awarded $51.5m from tobacco manufacturers who were found to have concealed information about the health effects of smoking.

● Airline passengers, stranded for hours on the tarmac at Detroit airport during a snowstorm, have brought a class-action suit against Northwest Airlines for "false imprisonment".

● *Every day brings new sexual* harassment lawsuits, as the courts extend their reach further into the workplace. Critics say they want to litigate civility at the water cooler and a kinder, gentler workplace. Supporters say sexual, gender, and same-sex harassment are major problems. Whatever the truth of the matter, the bold fact is that it was exactly this law that got President Clinton into legal trouble in the first place. He would never have been called to testify about his relationship with Monica Lewinsky without the sexual harassment lawsuit against him filed by Paula Jones, a former Arkansas government employee.

'The legislatures were reflecting not the will of the people, but the will of the gun lobby'

So the evidence is easy to muster: from the White House to the airport tarmac, Americans are turning to the law to solve a range of problems – social, political, even economic – through litigation. Why are they doing this, and what might the consequences be?

Robert Reich, former Clinton secretary of labor, argues that this is all the consequence of the retreat of "big government": America is litigating where it has failed to regulate: guns, tobacco, sweatshops, even high-tech industries such as Microsoft.

In a better world, conservative scholars argue, legislatures would legislate and government would regulate the big public policy issues of the day. Cities would solve their drugs, violence, and social problems without recourse to lawsuits which do little for the underlying problem. Employers would foster a corporate culture where discrimination is punished, without having to endure a judicially imposed civility code. And the market would punish any airline that strands its passengers on the tarmac.

But industry has only itself to blame. The road to more democratic policy-making is blocked, Mr Reich argues, by industry lobbyists who have enormous power over the political system. The result is that the political process is frozen and people take to the courts instead. "That seems to be why these problems are being litigated," he says.

And this is costly. "Regulation through litigation" is inefficient and by its nature cannot assess the collective public good rather than the interests of the individual. But some regulation is better than none, he argues.

That is the logic which underlies many of these cases, especially guns and tobacco: "The legislatures were reflecting not the will of the people, but the will of the gun lobby," says Jon Lowy, a lawyer with the Center for the Prevention of Handgun Violence, which is co-counsel in two of the gun suits. "But the political influence of an industry has no bearing in the courts." Hence the recourse to them.

Regulation through litigation is inefficient and it cannot assess the public good

The politics of the judge, though, can have a big impact: if he decides to tackle tough social problems, he can single-handedly shape public policy. Jack Weinstein, the Brooklyn judge who presided over a private lawsuit decided last week against gun manufacturers, has a reputation for "stretching the law beyond the breaking point to squeeze complex social problems into his . . . courtroom," writes the National Law Journal.

But his jury agonised over the questions raised by the case. Could gun makers be held collectively liable for acts of violence, without knowing which gun was used in a particular incident? What about the free will of the individual shooter? Are gun makers too far back along the chain of causation to be found the "proximate cause" of violence?

Under enormous stress, the jury issued a confusing verdict: nine of the 25 targeted gun makers were collectively liable because their marketing and distribution practices fostered illegal gun trafficking out of states with weak gun laws and into those with strict ones, such as New York. Yet the jury awarded damages to only one of the victims. Plaintiffs claimed victory but legal scholars said the verdict might not survive, either because the judge refuses to uphold it, or because it is reversed on appeal.

Either way, the other suits will continue. Professor Steven Crowley, a tort law expert at the University of Michigan law school, welcomes the trend to use the tort system because it shifts the cost of violence toward the gun user. Huge awards against gun manufacturers will be passed straight through to the price, he argues. "That way the price I pay will reflect the full costs to society that my gun poses."

Sexual harassment lawsuits will continue to multiply as lower courts help define a "hostile work environment", the new test of workplace discrimination. And under the doctrine "get your due or sue", Northwest passengers will claim damages for tarmac suffering. At the same time, critics will complain that the goal of all these suits is too vast, tantamount to litigating a right to fairness, in the workplace, in the cities, in airplanes, in life itself.

Professor Cass Sunstein, constitutional law expert at the University of Chicago law school, argues that where social issues like sexual harassment and guns are already under vigorous public debate, "we should not use ordinary tort law to displace those discussions." In his new book, *One Case at a Time: Judicial Minimalism on the Supreme Court* (Harvard University Press), he points out that whatever is happening at lower levels of the judiciary, the highest court has chosen not to try to settle big social questions in the courtroom, preferring instead promote public debate.

The tug-of-war between the law and politics is as old as the country, an integral part of a healthy democracy. And from Georgia last week comes a signs of a new battle: after Atlanta filed a gun suit, the state of Georgia legislature – where gun manufacturers have enormous political clout – rushed through a law which, according to Mr. Lowy, the anti-gun lobbyist, would mean that "product liability laws would apply to all products in Georgia EXCEPT guns".

Whatever happens in the end to guns, tobacco, sex harassment and airline discomfort, the institutional balance of power will no doubt right itself. Not even a country that litigates issues such as the temperature of coffee and jokes in the workplace can defeat the democratic design.

OBSERVER

Sisterly love, Schrempp style

Ex sister-in-laws, who needs them? DaimlerChrysler co-chairman Jürgen Schrempp may know the answer. He's the subject of an open letter published in a local paper in Baden-Württemberg, chiding him for planning to pay half his income taxes in the US rather than Germany.

There's nothing illegal about it – and it makes financial sense: top rate tax in Germany is 56 per cent compared with 47.1 per cent in Detroit, home of Chrysler. But Schrempp might think again after reading the letter from former sister-in-law Gerlinde.

"Dear Jürgen," she writes politely as she switches on the ignition. "I don't begrudge you your 20 million." But then Gerlinde, once married to Schrempp's brother Günter, starts to rev up. "Isn't it possible to pay one's taxes in an orderly manner? With what's left, don't you still come out with 9 or 10 million?" By the end of the letter, she's in fifth gear. "Forgive me if I remind you of your dear, honourable father. If he were still alive, he would be ashamed of you." Maybe time for Schrempp to go into reverse?

Ruth aboard

Just in case anyone thought New Zealand prime minister Jenny Shipley's government has been getting ideologically soft towards the end of its third electoral term, she's appointed Ruth Richardson to the Reserve Bank board.

Richardson, an old friend, was supported by Shipley after she became finance minister in 1992 and went on to launch a breathtaking range of new social, health and other initiatives in her "mother of all budgets".

A supporter of the Reserve Bank Act, which gave the governor independence from the government, Richardson also had a hand in the Fiscal Responsibility Act that requires the Treasury to give regular updates on the state of the economy. But she was eventually sacked as finance minister and resigned from parliament. Since then, she's done well advising Third World governments on economic reform.

Richardson becomes a director of the Reserve Bank at a time when its monetary policy and the accuracy of its forecasting has been criticised. As a director, she has to advise the government on the performance of the Bank and its governor – a role that long-serving governor Don Brash might be nervous about. Given her reputation for being tough minded and inflexible things could get interesting.

No porridge

Jailed currency trader Robert Young obviously has a way with words. The man imprisoned for his role in the "Cantrade affair" – clients were left claiming they'd lost £16m – has been exercising his influence over inmates in Jersey's La Moye prison.

Nearly 80 prisoners in the cliff-top penitentiary have just ended a 24-hour hunger strike in support of the convicted fraudster – who's on his ninth day without food. Young confesses to be "deeply moved by this symbol of solidarity" and reckons no one could help but be "profoundly affected by such a simple and dignified demand, for right".

Young lost an appeal against sentence last month and now wants to take his case to the European Court of Human Rights, claiming an unfair trial and "less than human" treatment. In the meantime, he's turned from currency trading to producing a daily "Letter from La Moye".

In one, he likened himself to the "spiky bits" on a hedgehog and in another he quoted from Robert Burns and reflected on his childhood home.

Fair cops

Malaysia is polishing up its police force. It's sending 11,000 police officers on a public relations course that will then be extended to the rank-and-file.

The image of the force has been undermined by several high-profile incidents, not the least of which was the beating of Anwar Ibrahim, the sacked deputy prime minister, while enjoying the security of police custody.

A month-long investigation found the police were to blame, despite prime minister Mahathir Mohamad's early suggestion that Mr Anwar's black eye and bruises might well have been self-inflicted.

Abdul Rahim Noor, the head of the police, resigned after the affair but no individual was found responsible, forcing a second investigation. "Although the force's image has been dented, we are determined to serve the people to the best of our ability," says inspector-general of police Norian Mai in announcing the image-building courses. While that should come as good news for most Malaysians, maybe it's a bit late for Anwar.

Bear market

Folks at consumer goods group Unilever have been getting grizzly. The cuddly Snuggle bear character used to flog fabric conditioner in the US has been in the wars – and Unilever has had to step in to protect him. The Anglo-Dutch group has got an injunction against a video games maker, 3DO, stopping it using Snuggle bear in one of its adverts. A shocked Unilever official says the ad showed the poor old bear being beaten up. Bear-faced cheek.

The Financial Times

100 years ago

Deutsche Bank success

The Deutsche Bank has undoubtedly scored with the new German loans. It was a bold enterprise to take upon its own shoulders the issue of government loans to the amount of £10,000,000 when the usual strong syndicate of banks had refused the offer, especially at a time like this when financial business in Germany has been none too rosy. To judge from the figures published, the Bank has no reason to regret its hardihood, for we are told that the loan was covered 20 times.

50 years ago

US Trade Expansion

Washington, Feb. 15. Severe competition between American and European firms for markets in Latin America, Asia and Africa was forecast here to-day as a result of President Truman's plan for developing these areas, by Mr. Willard L. Thorp, Assistant Secretary of State in charge of Economic Affairs. Mr. Thorp said revival of European exports under the Marshall Plan entailed no threat to the future of American foreign trade. He saw reason for optimism on the prospect of the rest of the world obtaining sufficient dollars to buy here.

FINANCIAL TIMES
TUESDAY FEBRUARY 16 1999

THE LEX COLUMN

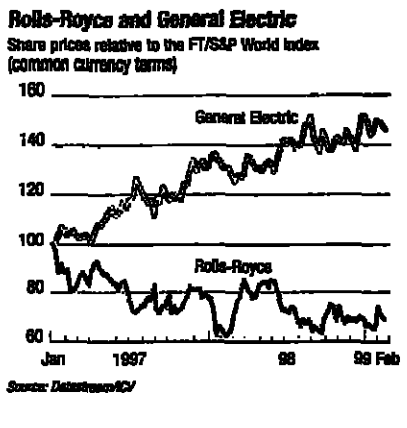
Electric alliance

Years of cut-throat competition are starting to transform the commercial aerospace business. Traditionally, the airframe makers Boeing and Airbus prefer each of the big three engine suppliers to build an engine for every model. It offers the airlines maximum choice and lower costs, as Pratt & Whitney, General Electric and Rolls-Royce fight for the order. In these straitened times, however, exclusive deals are coming into vogue. The latest appears to be a pact for Boeing to offer GE's GE90 powerplant as the only engine for a new long-range version of its B777 twin-jet.

Troubled Boeing clearly benefits. Its mainstay, the B747 jumbo, is ageing and losing market share to Airbus's A340, a slide the B777 has failed to halt. A big, long-range version should help. But volumes for this aircraft will be relatively small, so GE will have insisted on being monopoly supplier in return for spending $800m to develop a more powerful version of the GE90. For GE this is a *volte-face*. After only moderate success with the GE90, it has in recent years de-emphasised lower-margin new engine development and focused on repair services and leasing.

The loser from such a deal would be Rolls-Royce. *Granted, Rolls has done* very well out of its own exclusive alliance with Airbus on the A340. But the notion of two US giants such as Boeing and GE teaming up cannot be comfortable either for the UK group, or for airlines.

Rolls-Royce and General Electric
Share prices relative to the FT/S&P World Index (common currency terms)



Source: Datastream/ICV

Hoechst/Rhone-Poulenc

How should investors, keen to increase exposure to the life-sciences sector, play Aventis? This is the business forged from the merger of Hoechst and Rhone-Poulenc. But as it will take another three years to emerge as a pure pharmaceuticals and agrochemicals company, today's investors have to choose between either parent company. On balance, they should pick Hoechst.

The recent recovery in Hoechst shares may have cut their discount relative to Rhone-Poulenc. But investor appetite for Hoechst is still held back by the sheer complexity of the two-step merger. In total, Hoechst has to sell or demerge interests in nearly 10 chemical businesses. It will be a Herculean task: battling against the cycle, not to mention German tax law, before a final picture emerges. But investors with patience will focus on the net cash Hoechst should end up with compared with Rhone-Poulenc, whose stake in Rhodia is now worth €1.5bn ($1.75bn). Some estimates reckon Hoechst will boast net cash of roughly €7bn-€8bn, although pension liabilities could reduce that. Ideally, some of Hoechst's cash should be recycled into a larger stake in Aventis. Of course, Rhone-Poulenc may balk, but a *shift from 50/50 closer to a 60/40 split* should be negotiable. And if, as this sector has already seen, the merger falls apart, Hoechst offers less risk. Its pipeline is more skewed to drugs which are closer to getting to market.

Bombardier

Laurent Beaudoin, who stepped down this month as chief executive of Bombardier, has turned a small Canadian snowmobile maker into an international transportation group, doubling revenues to C$8.5bn ($5.6bn) in the past five years. Not to be outdone, Robert Brown, his successor, plans to double revenues once more in the next five.

Mr Brown starts from a position of strength. Bombardier's order book stands at a record C$23bn, boosted by record rail orders and booming demand for regional and business jets. It has grown to dominate this market by buying up a series of troubled small aircraft producers, from state-owned Canadair to Learjet, De Havilland and Short Brothers of Northern Ireland. Last year the group delivered 227 aircraft. It has orders for a further 323 and aerospace now accounts for half its sales and three-quarters of its profits.

Not surprisingly, this success is attracting competition. Airbus plans to produce a 100-seater and Brazil's Embraer announced last week it would spend $750m to build 70- and 90-seat regional jets. Meanwhile, Brazil and Canada are locked in a nasty fight that comes before the World Trade Organisation this week, with each accusing the other of unfairly subsidising their aircraft maker. Even so, given the prospect of 15-20 per cent profits growth for the next few years, the shares – even at 21 times forecast 1999 earnings – still look attractive.

Greenalls/Whitbread

The deal-hungry UK leisure sector has found another piece of meat to chew on. First comes a regional pub company takeover. Then Ladbroke bids for Stakis in hotels and casinos. Now, how about a deal that has a bit of everything: Whitbread buying Greenalls? It is certainly a tantalising prospect – not that that means anything will happen.

Greenalls' shareholders have not surprisingly become restive. *Before the* recent bounce, the stock had underperformed the sector by more than 60 per cent over three years. And at 376½p, the shares remain well below the 12-month high of 538p. The management has never lived down overpaying for Boddington in late 1995. But, as so often happens, the company seems to be at its most vulnerable just after cleaning itself up. The recent sale of its tenanted pubs, for instance, leaves a much neater portfolio *and halves the group's £700m ($1.1bn) net* debt.

All this means that a bidder would have to pay considerably more than eight times operating profits, or 11 times earnings, especially one like Whitbread with plenty of scope to cut costs. Whitbread's name keeps coming up because the overlaps extend from hotels to health clubs to pubs. But a deal at £1.5bn-£2bn, including debt and a premium, would be far bigger than any previous Whitbread move and involve a share issue. The rise in Whitbread's shares yesterday suggests this does not frighten the market.

TOUGH NEW PUNISHMENTS ORDERED IN RESPONSE TO ALTERATIONS TO EMBARGO

Cuba launches crackdown on collaboration with US

By Richard Lapper and Pascal Fletcher in Havana

Cuba's communist government yesterday launched a crackdown on political opponents who collaborate with the US government, underlining its hostility to the recent modification of the US embargo.

A draft law designed to protect "national independence and the Cuban economy" lays down tough new punishments, including prison terms of up to eight years merely for the possession of information judged to be subversive. It was expected to be approved late yesterday or today.

The law, unveiled at an extraordinary session of Cuba's National Assembly of Popular Power, the country's legislative body, says alterations to the US embargo "do not signal any change in US policy towards our country because they are aimed at subverting the revolution and maintaining intact the iron blockade".

In January, US President Bill Clinton announced a number of measures, including a widening of the criteria for determining who can send cash remittances to Cuba, an increase in US-Cuba flights, and authorisation for the sale of US food and agricultural supplies to non-government entities in Cuba.

The Cuban draft legislation specifically cites the US Torricelli law of 1992, which it says approved financial help for anti-government activities by "counter-revolutionaries and annexationists", and the Helms-Burton legislation of 1996, which further tightened the embargo and targets international companies investing on the island. It said these were part of a "permanent aggression against Cuban independence".

The new law sharply restricts the supply, reproduction and circulation of sensitive information within Cuba. Anyone supplying information to the US that can be used to "reinforce the blockade against Cuba" faces a possible prison term of up to 15 years. The penalty rises to a maximum of 20 years if it involves a group of people or if information is acquired "surreptitiously". State employees using information gleaned at work face prison sentences of up to 30 years.

In a clause clearly aimed at clamping down on the activities of Cuban journalists who criticise the government in articles and commentaries in foreign media, the law proposes jail terms of up to eight years for collaborating with radio and TV stations and publications deemed to be assisting US policy.

The assembly also unveiled a separate law designed to tackle the growing wave of serious crime, including armed robbery, drug trafficking and prostitution, which has accompanied the island's increasing openness to foreign investment and tourism.

It proposes the death penalty for serious cases of drug trafficking, corruption of minors and armed robbery. The illegal smuggling of emigrants and violent assaults on persons and property would carry terms of life imprisonment.

"If we don't increase the repression against these kinds of behaviour, this could affect our tourism," said Juan Escalona, attorney general.

UK government plans radical overhaul of health service pay

Proposals would reward doctors for successful treatment of patients

By Nicholas Timmins, Public Policy Editor

Top doctors in Britain should be paid by how successfully they treat *their patients, not just by how hard* they work, under radical government plans.

The move is part of a new national framework for pay in the state-run National Health Service published by Tony Blair's left-of-centre Labour government yesterday. It is aimed at breaking down barriers between different professions in the health service to reflect the changing pattern of modern treatment and to reward individual skills and responsibility.

The most controversial proposal is that health service consultants – hospital specialists – should have new contracts based on "agreed responsibilities and achieving good clinical outcomes" rather than the number of sessions they work, as at present. Doctors will face appraisal to ensure they are delivering their hospitals' service goals.

Under the broad plan there will be three pay "spines": one for doctors *and dentists, one for nurses and* therapists, and one for other staff. The national framework will lay down minimum pay rates for key types of post, but health authorities and hospitals will have discretion over where each post is placed on the pay spine.

Frank Dobson, the minister in charge of health, said it would sweep away an arcane system of "expensive, outdated and inflexible special allowances" that help define staff by title and pay, not by what they do for patients.

The government has not given details on how the system would work. The British Medical Association, which represents doctors, reacted with caution, saying it had "not been mentioned before", even though early talks on a new consultant contract have started.

The association warned that negotiations were already "soured" by *the government's decision* to withhold until the negotiations are complete £50m recommended by the doctors' pay review body to recognise consultants' increasing workload. However, the association was relieved that the government had opted for three pay spines – including a separate one for doctors.

Unison, the largest health union, was furious at that decision and at the degree of local discretion in the planned new system. It saw the plan as reflecting a largely failed pay system introduced by the former right-wing Conservative government. The Royal College of Nursing voiced reservations, although it said it was "willing to explore some [local] flexibility".

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US President Bill Clinton with his Mexican counterpart Ernesto Zedillo during a brief, low-key visit to Mexico yesterday. Report, Page 5 AP

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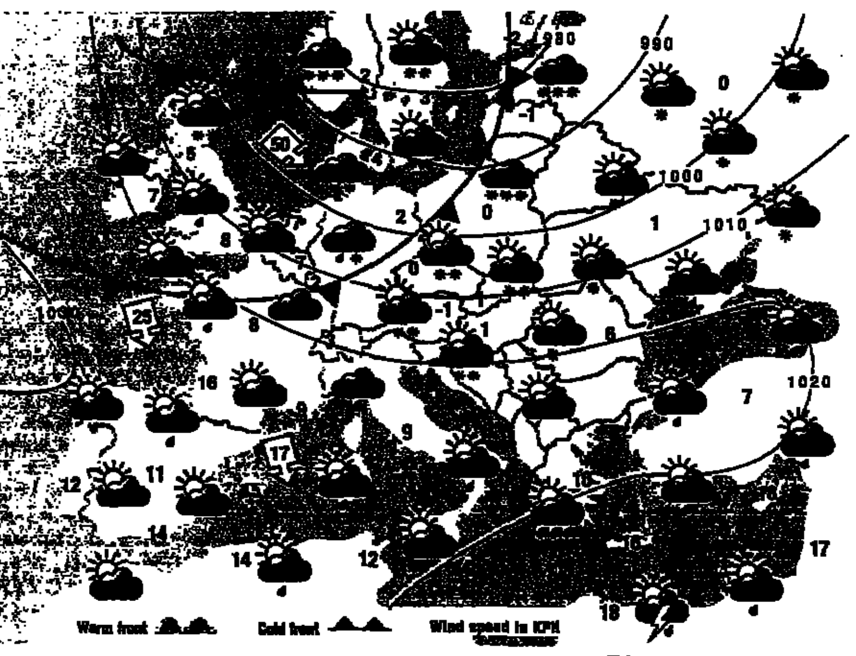
FT WEATHER GUIDE

Europe today

There will be widespread snow over Finland but sunshine and snow showers over Norway and Sweden. The Low Countries will have sunshine and showers, but probably of sleet. There will be plenty of snow over eastern Germany, with the snow turning showery from the west. Austria and Switzerland will have decent sunny spells but also heavy snow. France will have a mixture of sun and showers. There will be showers along the north coast of Spain. The eastern Mediterranean will have heavy showers and just a little sun.

Five-day forecast

The Iberian Peninsula will continue settled, dry and sunny. North-western *Europe will remain unsettled* and windy with bands of rain, sleet and snow pushing south-eastwards. Central and eastern Europe will become more unsettled and warmer.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	22
Accra	Sun	33
Algiers	Fair	14
Amsterdam	Shower	7
Athens	Shower	10
Atlanta	Shower	23
B. Aires	Fair	28
B.ham	Fair	7
Bangkok	Fair	33
Barcelona	Fair	12
Beijing	Sun	9
Belfast	*Shower*	6
Belgrade	Fair	3
Berlin	Sleet	2
Bermuda	Sun	18
Bogota	Fair	20
Bombay	Sun	34
Brussels	Shower	7
Budapest	Fair	1
C.hagen	Hail	4
Cairo	Sun	23
Caracas	Fair	29
Cardiff	Fair	8
Casablanca	Sun	15
Chicago	Rain	3
Cologne	Rain	4
Dakar	Sun	22
Dallas	Sun	22
Delhi	Sun	26
Dubai	Sun	24
Dublin	Fair	7
Dubrovnik	Sun	10
Edinburgh	Hail	5
Faro	Sun	15
Frankfurt	Rain	4
Geneva	Cloudy	3
Gibraltar	Fair	15
Glasgow	*Hail*	5
Hamburg	Rain	4
Helsinki	Snow	-2
Hong Kong	Fair	23
Honolulu	Sun	27
Istanbul	Shower	9
Jakarta	Thunder	29
Jersey	Cloudy	10
Johannesburg	Fair	26
Karachi	Fair	27
Kuwait	Sun	22
L. Angeles	Sun	19
Las Palmas	Fair	19
Lima	Fair	26
Lisbon	Fair	12
London	Fair	8
Lux.bourg	Drzzl	2
Lyon	Cloudy	3
Madeira	Fair	17
Madrid	Fair	11
Majorca	Sun	15
Malta	Fair	14
Manchester	Fair	6
Manila	Fair	31
Melbourne	Sun	24
Mexico City	Fair	24
Miami	Sun	25
Milan	Fair	7
Montreal	Snow	1
Moscow	Fair	2
Munich	Shower	3
Nairobi	Sun	29
Naples	Fair	10
Nassau	Sun	25
New York	Cloudy	10
Nice	Sun	9
Nicosia	Cloudy	18
Oslo	Snow	2
Paris	Shower	8
Perth	Sun	31
Prague	Sleet	0
Rangoon	Sun	35
Reykjavik	Snow	7
Rio	Fair	32
Rome	Fair	9
S. Frsco	Fair	16
Seoul	Sun	7
Singapore	Fair	31
Stockholm	Snow	3
Strasbourg	Drzzl	3
Sydney	Fair	30
Tangier	Fair	14
Tel Aviv	Sun	17
Tokyo	Fair	11
Toronto	Cloudy	6
Vancouver	Rain	7
Venice	Fair	5
Vienna	Snow	-1
Warsaw	Snow	0
Washington	Fair	13
Wellington	Fair	22
Winnipeg	Sun	-9
Zurich	Drzzl	2

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FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

COMPANIES IN THIS ISSUE

CROSSWORD, Page 26

MARKET STATISTICS

CSAM buys US fund manager

Swiss bank arm buys Warburg Pincus for $650m

By Jane Martinson in London and Bill Hall in Zurich

Credit Suisse Asset Management, owned by the second biggest Swiss bank, yesterday announced the $650m acquisition of Warburg Pincus Asset Management, the privately-held US mutual fund group.

The deal continues the trend for consolidation in the fund management industry, increases CSAM's funds under management in the US by 60 per cent to $57bn, and brings its total assets under management to more than $230bn worldwide.

Credit Suisse Group is also to buy a 20 per cent stake in Warburg Pincus' private equity arm, which manages $7bn with an additional $5bn of committed capital.

This passive stake – the price was not disclosed – represents the first outside investment in the New York-based partnership, which was formed more than 30 years ago.

Investment consultants yesterday welcomed the asset management deal and said the two businesses were complimentary.

Warburg Pincus's business is primarily a retail equity operation while most of CSAM's assets are in the lower margin institutional fixed income markets.

Phillip Colebatch, CSAM's chief executive officer, described yesterday's deal as a "perfect strategic fit" because of its retail bias and US position.

The price, at 3 per cent of assets under management of $22bn, is towards the top end of recent deals in the sector, but Mr Colebatch described it as a good one.

Some $200m of the price will be paid over three years if undisclosed performance targets are met.

Mr Colebatch said CSAM had wanted to buy Warburg Pincus ever since forming a distribution alliance with it last June.

"I wanted the alliance to be so successful that they had no choice but to get married," he said.

Lionel Pincus, chairman and chief executive of Warburg, Pincus & Co, said the deal was prompted by the belief that "scale and global reach are critical strategic requirements for financial services firms".

Warburg Pincus also has $6bn of private client money which could provide a base for Credit Suisse's re-entry to the US private banking market, which it quit a year ago.

Although the asset management business, which employs260 people, will be fully integrated into the combined group, CSAM is likely to continue to use the Warburg Pincus name.

Mr Colebatch said there would some some synergies and relatively small savings of between $20m-$30m a year.

He added that the group still wants to increase its presence in western European retail markets, and has targeted the UK, France, Germany, Italy and Spain.

William Priest, chief executive of CSAM in the US, will head the merged firm.

Schrempp promises decision on Nissan

By Tony Barber in Frankfurt

DaimlerChrysler, the German-US car group, yesterday promised to decide within three months whether to acquire a stake in Nissan, the struggling Japanese carmaker.

Jürgen Schrempp, co-chairman of DaimlerChrysler, said a business partnership with Nissan was attractive because it would turn his group into the world's only truly global carmaker, enjoying a strong position in the US, Europe and Japan.

"We shall have to make a decision with serious consequences in the next two to three months," Mr Schrempp told a student audience at the University of Bayreuth in southern Germany. Nissan, he added, was "a great opportunity" for a company such as DaimlerChrysler, with its ambitions to enter the Japanese market.

DaimlerChrysler was known to be interested in Nissan, as well as in its subsidiary Nissan Diesel, which makes trucks and engines. However, Mr Schrempp's remarks represent the first time the German-American group has set a timeframe for deciding whether to buy into the Japanese parent company and show that yet more consolidation awaits the international car industry.

Schrempp: great opportunity

Nissan is the world's fifth largest car manufacturer, with a 20 per cent market share in Japan and excellent production facilities in the US and Europe. It is therefore an obvious target for DaimlerChrysler, which is keen to build up its business in Asia.

Nissan, Japan's second largest carmaker, has large net debts, officially totalling Y2,500bn ($2.4bn), and it would almost certainly need a big capital investment from a foreign company taking a stake in it.

The Japanese trade ministry said this month that it would endorse an alliance between Japanese and foreign carmakers if this turned out to be necessary to maintain Japan's place in the global car industry.

The ministry made clear its position after Yoshikazu Hanawa, Nissan Motor president, suggested last month that a foreign company might be allowed to buy more than one-third of Nissan's shares. That would entitle DaimlerChrysler, or any other foreign group, to a seat and veto power on the Japanese company's board.

Renault, the French carmaker, has confirmed that it has opened talks with potential partners in Asia, including Nissan. Ford of the US, which bought a 33.4 per cent stake in Mazda of Japan in 1997, has also been said unofficially to be interested in Nissan.

Mitsubishi seeks foreign partner, Page 20

Should Volvo wish on Navistar?

Analysts debate Swedish group's takeover plans

By Tim Burt in Stockholm and Nikki Tait in Chicago

The juggernauts of Navistar continue to rumble across America. But for the past couple of weeks it has been takeover talk that has rumbled around the Chicago headquarters of the truck, school-bus and diesel engine maker.

Sweden's Volvo is understood to have opened discussions with the US company earlier this month and while neither company was making any comment yesterday, Navistar's shares have already jumped from about $27 at the beginning of January to $35¼ before yesterday's Presidents' Day holiday, when US markets were closed. In Stockholm, shares in Volvo eased SKr2.50 to Skr218.50, as analysts reacted cautiously to the news.

For Navistar, this is a far cry from the dismal stories that dogged the company for much of the 1980s and early 1990s. The company was born out of the former International Harvester group, which itself flirted with bankruptcy at the start of the 1980s.

Eventually, IH's construction equipment arm was sold to Dresser Industries, while its loss-making agricultural equipment business was bought by Tenneco, along with the company name. The remaining truck and diesel engine business was re-tagged as Navistar in 1986.

For about a decade, Navistar's management struggled to find an even keel. It instigated an overhaul of the truck line; tried to streamline an unwieldy cost base; tackled the company's notoriously difficult labour relations; and rebuilt a shaky balance sheet. However, from 1986-1996, Navistar had the unenviable record of providing the worst total return to shareholders of all publicly traded companies in the US.

But, in 1996 and 1997, it finally appeared to turn the corner. John Horne, chairman, laid out plans to introduce a new generation of trucks, with more standardised parts and a lower cost base. He demanded more flexibility in labour arrangements from the United Auto Workers union, in return for investment in US plants. Finally, after initially rebuffing any deal, the workforce approved a pact that extended a master labour contract through to 2002.

Other positive developments included a capital restructuring programme, while Ford Motor Company picked Navistar for a long-term contract to supply diesel engines for the carmaker's sport utility vehicles and pick-up trucks.

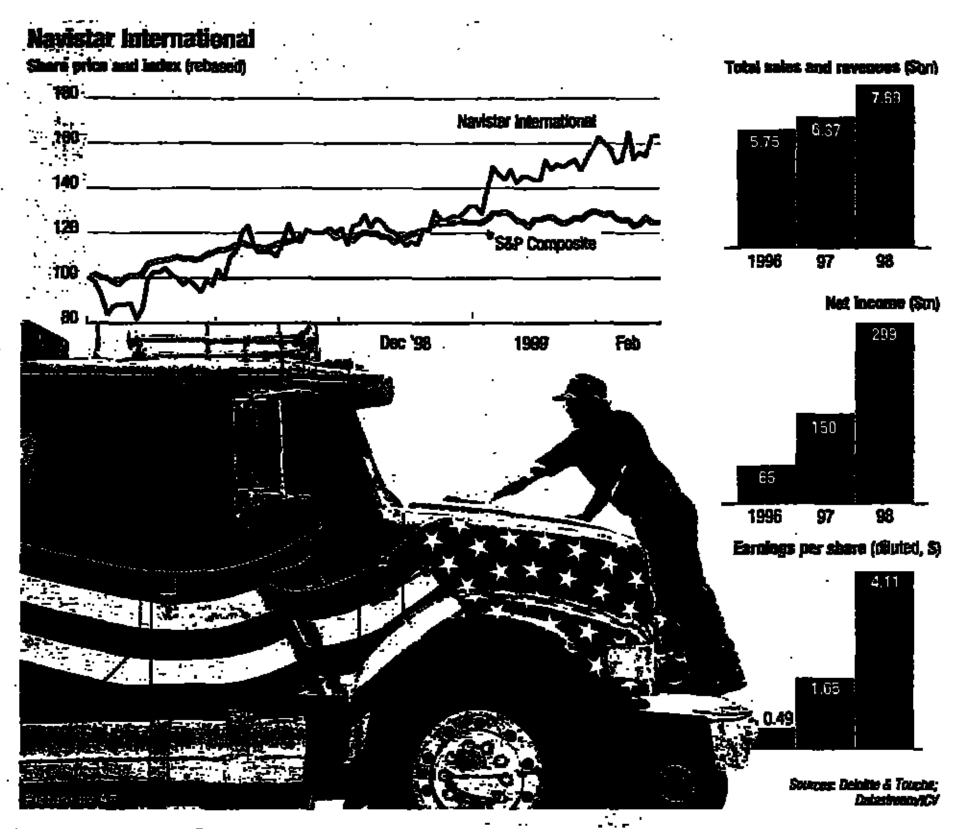
But some analysts question Volvo's pursuit of Navistar at a time when the company has also been contemplating a bid for Scania, its Swedish arch-rival, in which it took a near 13 per cent stake last month. Investor, Scania's controlling shareholder, has so far responded coolly to Volvo's overtures, but the two are understood to be maintaining a dialogue.

Some European motor sector analysts think a link with Scania is more attractive than one with Navistar. "Europe is where the real growth has been in the past year and margins there are higher than the US at 10-12 per cent," said John Lawson at Salomon Smith Barney in London.

Others wonder whether the acquisition of Navistar would really amount to the "transforming deal" that Leif Johansson, Volvo's chief executive, has hinted at. "The US market is very tough and an enlarged Volvo truck business would still be squeezed between powerful component suppliers and powerful fleet customers," said one Swedish analyst.

In the US too, questions have been raised over the extent to which useful tax losses – which Navistar has carried forward because of its troubled past – might be lost in the event of a takeover.

Perhaps the ultimate prize for Volvo would be both Scania and all or part of Navistar. But given both target companies know Volvo is an eager buyer, they might be reluctant to cede their independence without a generous premium.



Sources: Deloitte & Touche; Datastream/ICV

British Biotech drug fails trial

By Virginia Marsh

The first of British Biotech's advanced trials for an anti-cancer agent, once seen as a potential breakthrough in treatment of the disease, has failed.

The company said yesterday that a Phase III study of marimastat, its oral anti-cancer agent, on patients with advanced pancreatic cancer had not met its main targets.

Study 128 was one of the two tests over which Andrew Millar, the company's former head of clinical trials, raised concerns last year. The revelations caused shares in the once highly-rated company to collapse and led to the departure of chief executive Keith McCullagh, and other top managers, after accusations that investors had been misled over progress in the trials.

Yesterday the shares fell 4½p to a low of 21½p, down from 326p in May 1996 when the company was valued at £1.92bn and seemed on the verge of entering the FTSE 100.

The company said the trial had failed to meet its target of detecting a 16 per cent or greater reduction in mortality of patients receiving 10mg or 25mg doses of marimastat compared to gemcitabine, a chemotherapy treatment produced by Eli Lilly of the US.

However, a secondary analysis had suggested the higher 25mg dose was as effective as gemcitabine.

The study is the first of ten marimastat trials and the company said it was too early to draw broader conclusions over the drug's efficacy.

An eleventh trial, into ovarian cancer, was dropped in December after a strategic review by new management concluded that it was poorly-designed.

Dr Millar said yesterday's results vindicated his original concerns, adding that the ongoing tests use the lower dosage rather than the more promising 25mg dose.

British Biotech, which is also developing a treatment for acute pancreatitis, made pre-tax losses of £24.9m (£30.9m) in the nine months to January 31, when it had cash of £105.3m.

Comment, Page 21

French aerospace group is cleared for sale

By Robert Graham and Samer Iskander in Paris

The way has been cleared for the privatisation of Aerospatiale following agreements on the valuation of the French state-owned aerospace group and the cost to the Lagardère civil aviation group of acquiring a one third stake in the business.

Lagardère will be merging its Matra defence arm into Aerospatiale. The complex deal, creating Europe's second largest aerospace group, is believed to involve Aerospatiale accepting a clean-up of its books, with substantial provisions in the 1998 accounts.

In return, Lagardère will inject Matra into the group and acquire a 33 per cent stake, while also making an initial payment to Aerospatiale of FFr850m (€129.6m, $146.3m)

A statement from the finance ministry last night said Lagardère could pay a further FFr1.15bn depending "on the future performance of Aerospatiale-Matra shares".

In fixing this payment, Matra appears to have been valued at just under FFr17bn and Aerospatiale at about FFr30bn.

The state, which owns 100 per cent of Aerospatiale, is committed to reducing its stake to below 50 per cent in the privatisation, which the finance ministry said yesterday would happen in the year's first half. The offer will have to be fitted in with those planned for Air France, Crédit Lyonnais and Crédit Foncier. Employees will be offered 4 per cent of the stock.

The government also said it was removing Aerospatiale's 4 per cent holding in Thomson-CSF, the defence electronics group that was partially privatised last year in the first stage of France's defence sector shake up.

This severs links between the new group and Thomson, which is seeking a global alliance following its failure to win GEC-Marconi in last month's battle with British Aerospace.

According to analysts, Aerospatiale-Matra will have a market capitalisation of about FFr56bn. With a combined turnover of FFr80bn, it will be the world's fifth largest aerospace group.

Norsk Hydro reports 28% fall in profit

By Valeria Sköld in Oslo

Norsk Hydro, Norway's largest industrial group, yesterday said falling profitability in three of its core businesses – oil, fertilisers and petrochemicals – had wiped 28 per cent off its 1998 profits.

The results have triggered a sweeping restructuring plan that aims to add up to NKr5bn ($656m) to operating profits by 2001.

The plan will lead to the loss of 1,500 jobs out of its 40,000 staff and consultants by the summer of 2000, a cut in NKr1.5bn worth of investments this year to NKr12bn, and disposals of some non-core assets.

The tightening measures follow similar cutbacks among oil companies worldwide amid consolidation in the industry, itself caused primarily by record low oil prices.

"This is a normal development ... in the competitive situation we are facing. We need to have a perspective of being twice as good without being half as big," said Egil Myklebust, Norsk Hydro chief executive.

The company yesterday reported a 28 per cent fall in last year's net profits to NKr3.75bn from NKr5.2bn on virtually unchanged revenues of NKr97.5bn.

The effects were only partly offset by progress in light metals, a substantial gain from the sale of securities and a lower effective tax rate.

Norsk Hydro plans to realise NKr1bn of the improved operating profits this year, primarily within its oil and agriculture divisions, and a further NKr1.5bn in 2000 and 2001.

The company may also identify a further NKr2.5bn in improvements to operating profits, making a total of NKr5bn. More than 60 per cent of the NKr2.5bn in improvements will be achieved through cost cuts, such as lay-offs within its Norwegian oil and gas business, postponement of projects, and improvements in purchasing and logistics.

However, the company plans to sell or seek partners for its non-core activities, particularly those with "subpar" results and companies where it is a sole owner, Mr Myklebust said. For example, it aims to seek a new ownership structure in Hydro Seafood, the world's largest producer of salmon.

Norsk Hydro will also continue its search for an alliance partner for its petrochemicals division following the failed merger in October with EVC International of the Netherlands.

It also plans to reduce its non-strategic 40 per cent holding in Dyno Industrier, a Norwegian explosives and chemicals company with a market value of NKr3bn.

Norsk Hydro shares closed up NKr1 at NKr283.

Repsol lifts profits 15%

By David White in Madrid

Spain's Repsol group has bucked the trend among international oil companies hit by the slump in crude oil prices by reporting a net profit increase of more than 15 per cent for last year.

Its attributable net earnings reached a record Pta145.5bn (€874.6m, $982.8m) against Pta126.1bn the year before. Earnings per share were up to Pta486.05 from Pta420.33.

Repsol's performance reflected the fact that it concentrates heavily on refining and marketing, rather than *exploration and production*. This enabled it to benefit overall from the fall in oil prices, while more production-oriented groups suffered.

However, the company emphasised yesterday that it planned to press ahead with moves to build up its production operations – principally through YPF, Argentina's privatised energy group.

Repsol spent $2.01bn on an initial 15 per cent shareholding in YPF last month, its biggest single investment to date.

The purchase, which Repsol sees as the first step to eventual full control, is aimed at building the company into a full-scale multinational with a similar mix of activities to other majors in the industry.

Repsol said it wanted to exploit the gains it had made from the oil price fall in this cycle to rebalance the group. Its 1998 results showed a slowdown in profit growth since the nine-month stage, when it stood at 18 per cent, but topped most analysts' forecasts. Repsol's shares closed 0.1 per cent up on the Madrid market yesterday at €48.35.

The earnings increase came mainly from a 40 per cent boost to operating profits from refining and marketing, to Pta155.2bn, and a 55 per cent jump in the gas sector to Pta77.9bn. The company said these increases *reflected higher refining* margins and growing natural gas sales in Spain and Latin America.

Operating profits from exploration and production, in contrast, followed the general trend and plummeted 66 per cent to Pta15.5bn. This was despite an 8 per cent increase in Repsol's production of hydrocarbons.

The group's chemical business achieved a modest increase of almost 4 per cent in earnings to Pta29.4bn, in what it described as difficult market conditions.

Overall operating revenues were 1.5 per cent down on 1997 at Pta3,159.5bn, with the only increase coming from the gas sector. The group is counting on continued growth of around 20 per cent a year in the Spanish market for natural gas.

View of the future looks good on paper

Scandinavia's forestry products groups plan further consolidation, writes **Tim Burt**

From his high-rise office at Metsä-Serla, Jorma Vaajoki can see woodland and lakes stretching all the way to Helsinki on the horizon.

The chief executive of the world's fifth largest paper company claims he has a similarly clear view of where the European pulp and paper industry is headed. Battered by price volatility and collapsing Asian demand, the region's leading forestry products groups have but one option – a further wave of consolidation.

Mr Vaajoki, embarking on his third year at the helm of Metsä-Serla, plans to be in the vanguard of that process.

Unlike many competitors, the Finnish group is well placed to exploit acquisition opportunities, both in terms of profitability and balance-sheet strength. Earlier this month, it reported an 80 per cent increase in full-year profits to FM1.82bn (€306m, $345m) – a figure that looked doubly handsome against the 31 per cent decline reported days later by Swedish rival AssiDomän.

Loan facilities of FM7bn-FM8bn and solid cash flow, meanwhile, mean that Mr Vaajoki could spend up to FM12bn without over-stretching the balance sheet. And there is every indication that he is prepared to contemplate a significant bolt-on deal.

"The next stage of consolidation will be among the tier-two companies and we are looking for ways to take part in that," said Mr Vaajoki.

Most of the buying opportunities are among smaller specialised paper companies, which are particularly vulnerable to raw material prices, and sluggish international demand. They have been hit hard by the rapid decline over the past 18 months in pulp prices, which dictate selling prices for end products.

There is little room for consolidation among the largest companies. According to Metsä-Serla, it is one of six companies that command almost 90 per cent of worldwide market share. The remaining 10 per cent or so is fought over by 54 companies.

"We are not looking for a deal to double the size of the company," says Mr Vaajoki. "But this time next year Metsä-Serla will look very different following acquisitions and disposals."

That step signals the latest stage of a transformation of the company, which has embarked on a hefty internal restructuring. In the paper division, where profits rose fourfold last year to FM1.07bn, the company has 40 per cent fewer people than it did two years ago.

At the same time, it is beginning to see benefits from investment in more productive machinery and subsidiaries, such as Biberist in Switzerland and UK paper, acquired from Fletcher Challenge of New Zealand last year.

On the disposal front, industry analysts have long speculated that the company could sell its tissue division, with Swedish rival SCA mooted as the most likely buyer.

But Mr Vaajoki emphasises that there is "no active auction" under way, adding that the company did not have to sell a useful profit contributor.

The other option could be an asset swap in which Metsä-Serla could exchange its tissue activities for SCA's fine paper business.

But again, the Finnish chief executive warns against expecting a deal soon.

"The only good reason to consolidate is to improve profits. We have doubled profitability in three years, I do not want to do something to jeopardise that."

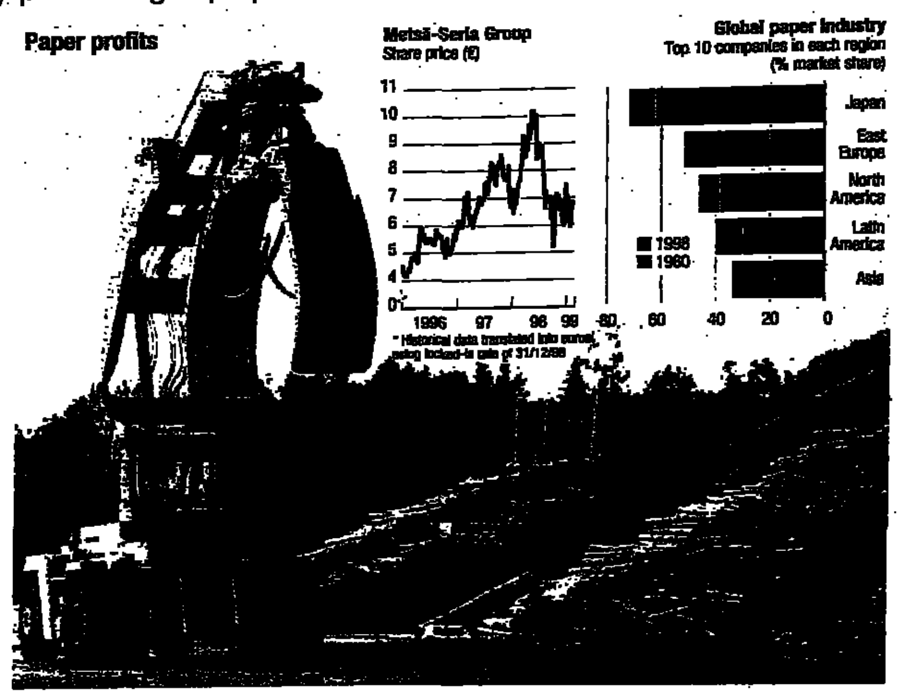
Given the uncertain outlook in Asia and Russia, the market might not welcome a deal that increased the Finnish group's exposure to those areas. But on the other hand, companies dependent on such sales look cheap right now and could promise useful growth opportunities over the longer term.

Taking them out could also help reduce overcapacity in paper supplies, making it easier for large manufacturers to turn away low-price orders.

'The trick now is to match output to demand rather than adding capacity when prices rise'

The trick now for Metsä-Serla and other paper groups is to match their output to demand, rather than simply adding capacity at times when prices rise. They have to ensure bolt-on acquisitions can be earnings enhancing in the near term, not just increasing volumes.

Mr Vaajoki says the Finnish group is up to the challenge, although its profit growth this year is unlikely to match the rampant growth seen in 1998. "Our margins and internal efficiency has gone up dramatically, that is something to build on," he says. "Shareholders do not like us because we have blue eyes; they want to see us perform and I'm going to deliver."



ING executives cut own bonus

By Clay Harris, Banking Correspondent

The new chief executive of ING Barings and one of his senior lieutenants have given up part of their guaranteed bonuses for 1998 in order to make a reduced pool of money go further.

The gesture by David Robins, the Dutch-owned investment bank's chief executive, and Malcolm Le May, head of corporate and institutional finance, may also have helped to win backing from the parent ING Group for a new three-year business plan.

Michel Tilmant, ING Barings chairman and a member of the ING executive board, made clear yesterday that even at its reduced level, the investment bank's bonus pool was "much higher than deserved based on the net result" last year.

ING Barings was hit hard by trading losses in emerging markets securities and also suffered from inadequate control of overall risk exposure.

The decision to maintain the bonus pool at a level beyond what was justified by results was evidence of support for ING Barings' revamped strategy, Mr Tilmant said. But Mr Robins signalled that allocation of bonuses would be used to send a message. "Some people performed poorly, and they will be rewarded poorly," he said.

ING Barings went through considerable upheaval last year, with the resignations of Arjun Mathrani, who lasted only five months as chief executive, and Marinus Minderhoud, who left in October because of the bank's poor results.

Mr Tilmant and Mr Robins came into the group long after ING's rescue of Barings in 1995 after the collapse caused by trader Nick Leeson. Mr Tilmant was chief executive of Belgium's Banque Bruxelles Lambert, bought by ING in 1997.

NEWS DIGEST

CHEMICALS

Kemira hit by Russian agriculture problems

Kemira, the Finnish chemicals and fertiliser group, yesterday reported a sharp fall in full year pre-tax profits to FM579m ($110m) from FM864m blaming problems in Russia's agricultural sector, which hit fertiliser exports. The company said sales in the 12 months to December 31 were steady at FM14.35bn against FM14.39bn a year earlier. However, the agro division had faced difficult competition with downward pressure on prices in fertilisers, caused mostly by increased supply and China's absence as a buyer of nitrogen products.

Separately, the group indicated that it might be interested in UK group ICI's Tioxide division following the collapse of ICI's sale of the business to DuPont in January.

Mr Karinen said Kemira had been hit by problems in Russia where sales had fallen as Russian fertiliser exports had put pressure on prices in other markets. The agro division reported an operating loss in the last four months of the year of FM115m. Earnings per share fell to FM 3.60 from FM 4.80 with the board proposing a dividend of FM1.70. **Nicholas George, Stockholm**

CARMAKING

Takeover talk lifts BMW stock

Shares in BMW closed higher yesterday as the luxury German carmaker remained the subject of takeover talk despite a statement from the company's new chairman that he wanted to preserve its independence. They closed last night at €745, up 3 per cent from an opening €723 and against the downward drift of Frankfurt's Dax stock market index. Joachim Milberg, who replaced Bernd Pischetsrieder, said on Sunday there was no truth to German media reports that the company's position might change. **Tony Barber, Frankfurt**

■ Bank Austria shares rose 10 per cent yesterday after Goldman Sachs, the investment bank, added it to a list of recommended shares, citing its recovery from the effects of Russia's economic crisis. Shares in the bank, Austria's largest and a large lender to eastern Europe, closed at €44.80. **Reuters, Vienna**

INSURANCE

Storebrand close to bank takeover

Storebrand, Norway's leading insurer, yesterday secured enough acceptances from the shareholders of Finansbanken for its NKr1.6bn ($210m) takeover bid of the private Norwegian bank. Finansbanken's board last week advised shareholders to wait until the bid deadline of February 12 as Storebrand's NKr40 per share offered price did not reflect Finansbanken's "strategic value". However more than 92 per cent of Finansbanken shareholders accepted the offer, paving the way for the latest consolidation in the Nordic financial sector.

Storebrand's bid must still be approved by the authorities. Storebrand shares closed NKr0.5 higher at NKr59.50. **Valeria Sköld, Oslo**

FORESTRY

UPM-Kymmene plans cuts

UPM-Kymmene, the Finnish forestry group, announced a rationalisation programme aimed at saving FM1.2bn ($228m) a year after warning that sales and prices had fallen at the start of the year. The company, which last week reported pre-tax profits to December 31 of FM8.54bn, said business had been less profitable in the fourth quarter last year and that sales and prices in the first months of 1999 were weaker than last year.

Its cautious statement follows similarly sluggish price forecasts in the past two weeks from rivals AssiDomän of Sweden and StoraEnso, the Swedish-Finnish paper group. Juha Niemelä, chief executive, said about 1,000 jobs were affected by the two-year programme which involved some plant closures and a general streamlining of production.

Many of the "hundreds" of different measures had already been taken with half the FM1.2 bn yearly savings achieved in 1999, he said. "We see the year has not started as well as expected and on the other hand the competition is stronger due to mergers in the sector," Mr Niemelä said. **Nicholas George**

SEB may sell non-life operations by middle of year

By Tim Burt in Stockholm

SEB, one of Scandinavia's largest lenders, is considering selling its non-life insurance operations as part of a strategy to concentrate on retail banking and asset management.

The Swedish bank, formerly known as Skandinaviska Enskilda Banken, yesterday said it hoped to complete the disposal by the middle of the year, although no talks are currently under way.

SEB's non-life business, inherited from its 1997 merger with Trygg-Hansa, the Swedish insurer has been named as a possible acquisition target for Storebrand, Norway's largest insurer.

Industry analysts believe it could be valued at more than SKr1bn ($126m).

Lars Thunell, SEB chief executive, said the proposed sale represented a further step in the reorganisation of the enlarged financial services group following the disposal last year of Trygg-Hansa's real estate and industrial and marine operations.

Mr Thunell was speaking after SEB announced a 30 per cent increase in full-year pre-tax profits, up from SKr4.69bn to SKr6.08bn in 1998. The maiden 12-month figures after the Trygg-Hansa merger showed funds under management increasing by 25 per cent to SKr499bn – making SEB the Nordic region's largest asset manager.

Although net interest income decreased marginally from SKr6.83bn to SKr6.78bn, most industry analysts welcomed the figures. They expressed relief that SKr1.4bn of third-quarter provisions for lending losses in Russia had been offset by capital gains of SKr1.7bn.

As SEB pursues a strategy of concentrating on unit-linked insurance, asset management and retail banking, some analysts questioned its commitment to investment and merchant banking.

Profits in SEB's merchant banking division fell from SKr1.6bn to SKr316m – due mainly to Russian provisions – while Enskilda Securities saw its operating profit fall from SKr329m to SKr217m.

SEB's return on equity rose to 16.1 per cent last year from 12.6 per cent in 1997. Earnings per share rose from SKr6.04 to SKr8.27, and the bank proposed to lift the dividend from SKr3 to SKr3.50 a share.

Easdaq targets new companies with fresh marketing strategy

Vincent Boland finds an exchange intent on winning more listings in growth sector

Small companies need not despair too much – somebody out there likes you. Easdaq, the pan-European stock exchange that targets young, capital-hungry companies, may soon come calling.

As it seeks to put an under-achieving first two years behind it, Brussels-based Easdaq is gearing up for a marketing blitz and new strategy to win more listings from what is widely regarded as one of Europe's prime growth areas.

Over 100 young European companies are expected to list on growth markets this year, and the exchange insists it will win its fair share of them.

To do so it needs to break the stranglehold on the growth-company sector now enjoyed by Euro.NM, an alliance of small-capitalisation markets set up by some of Europe's national bourses.

The alliance groups Frankfurt, Paris, Amsterdam and Brussels and will expand to Stockholm, Zurich, Copenhagen and Milan later this year.

Stanislas Yassukovich, Easdaq chairman, says the exchange, owned by venture capital companies, fund managers and its own members, "is where we expected it to be" after two years.

He plays down the rivalry with Euro.NM, insisting that as an institutional market its focus is different to the national markets with their large retail followings.

"We cannot compete with Euro.NM for German companies. Easdaq is an overwhelmingly institutional market and we don't pretend to be competitive," he says. "There have been some spectacular price performances on the Neuer Markt but the question is, are they sustainable valuations? And will those German companies be satisfied with purely national exposure?"

In the next few days Easdaq will host a fair for potential UK listings. Meanwhile, new offices in Paris and Frankfurt will boost its presence in Europe's two most dynamic markets for initial public offerings.

Andrew Beeson, chief executive of Beeson Gregory, the London stockbroker, estimates there could be 43 initial public offerings on Easdaq this year, from 16 countries. Executives admit they are disappointed that the 39 listings the exchange secured up to the end of last year fell below their start-up target of 50.

Easdaq undoubtedly can lay claim to being a much more international and institutional market than any of the "new markets". But there is a sense of urgency about its drive to woo more listings, and the exchange also wants to raise its profile among retail investors.

That can be risky. Easdaq got a taste of internet fever when Netvision, a Belgian internet security company, floated on the exchange last week. Huge demand from retail investors sent the price soaring from €12 to €110 and then back to €48 a share within minutes of the start of trade.

The Belgian stock market watchdog is now investigating recent price volatility in initial public offerings in general.

Easdaq and Netvision's market makers also met to see whether the volatility could have been reduced through greater "price discovery" – the optimum offering price for the company's shares.

Easdaq's current market capitalisation is about €16.5bn, while that of the four Euro.NM markets combined is €43.4bn.

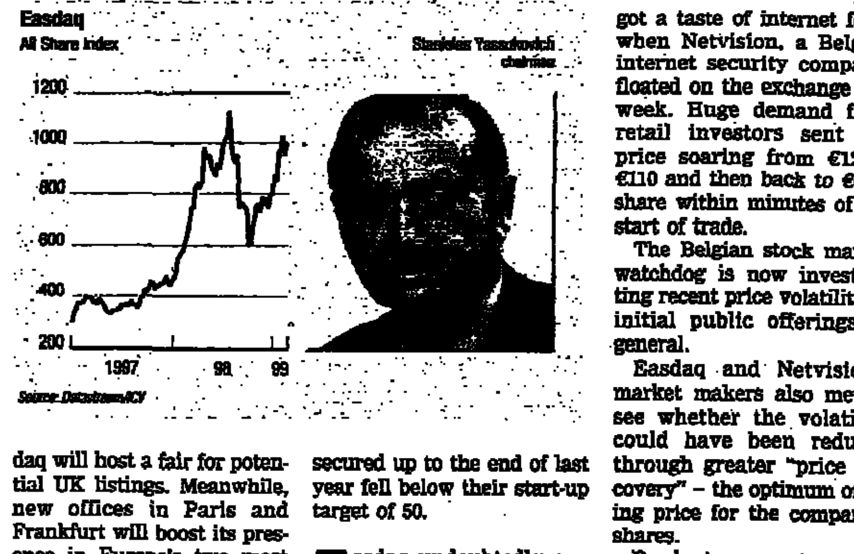
A more telling statistic is for new capital raised – the chief reason why these types of exchanges were set up. Easdaq listings had raised €1.6bn to the end of January, while Euro.NM, dominated by the Neuer Markt, had raised €4.7bn. Easdaq is raising €18m in new equity for itself from new and existing shareholders.

Eight financial institutions own 63 per cent of Easdaq – ING Barings, Kredietbank, Standard Life, Banque Populaire, Equitable Life, Aros Securities, BT Alex Brown and Robertson Stephens.

The funds will be spent on building a new trading platform and securing more members, especially the big investment banks whose support is crucial both for the exchange and for the companies that list on it.

When its revamping has been completed, Easdaq will be ready for its own stock market listing, probably in the first half of 2001.

Will Easdaq still be needed in 2001? It has already rejected a takeover offer by Deutsche Börse, which operates the Frankfurt markets. There have been suggestions it might merge with Euro.NM, but it seems in no mood to surrender its independence just yet.



TECHNOLOGY ANALYSTS WATCH EARNINGS

Market waits for key results after decline

By Louise Kehoe in San Francisco

Quarterly results from three US technology bellwether stocks, due today, will be closely watched after a sharp decline in several technology stocks last week.

With US markets closed yesterday for the Presidents' Day holiday, today's reports from Dell Computer, Hewlett-Packard and Applied Materials could set the tone for the technology sector this week.

In particular, Dell, the leading direct seller of personal computers via telephone and the internet, is being closely watched. Fears that the company might fail to beat Wall Street forecasts for fourth-quarter earnings of about 31 cents a share fuelled a sell off in technology stocks.

The technology-laden Nasdaq composite index finished down 83.7 points on Friday, off nearly 3.5 per cent one day after logging its highest one-day points gain. Dell closed down almost 12 per cent on the day at $89⅞.

Daniel Niles, analyst at Robertson Stephens, lowered his estimate for Dell's fourth-quarter revenues to $5.2bn, from $5.5bn, saying that the PC company may have seen sales soften toward the end of the quarter. And at Salomon Smith Barney, analyst Richard Gardner said Dell's biggest rivals were making progress toward mimicking the so-called "Dell model" of direct sales.

One of those rivals, Hewlett-Packard, is also scheduled to release its quarterly earnings report today. The company is facing intense competition in the market for PC printers, where average prices are declining. It also has to deal with the expected transition of its high-performance range of computers to new microprocessors jointly developed with Intel.

In November, the company warned that weakness in Asia and Latin America could slow sales growth this year.

Applied Materials, the leader in production equipment for the semiconductor industry, is expected to signal renewed growth in that sector after a long period of slow sales as Asian chip makers reduced investments.

The company's results are seen as a leading indicator for the entire semiconductor sector, since purchases of new equipment reflect the future production plans of chipmakers.

With semiconductor industry analysts predicting a return to industry-wide growth of about 14 per cent this year, Applied Materials' results will be an important signal of whether such growth is sustainable.

Investor fears about the future of the technology sector may, however, be calmed this week by the official introduction of a new generation of microprocessor chips by Intel.

The new Pentium III chips are expected to lead to a spate of fresh internet services that include high quality video and audio, making internet services more akin to television channels, creating renewed investor interest in that segment.

Pirelli/Cooper deal sets tyres sector in a spin

By John Griffiths

Even in an industry obsessed with flexibility and rapid responses, Friday's announcement by Pirelli of Italy and Cooper Tire and Rubber of the US that they were to form a "strategic alliance" seemed extraordinarily fast footwork.

It came just a week after Goodyear, Cooper's much larger US rival, and Sumitomo Rubber Industries of Japan had launched a series of joint ventures, most under Goodyear's control, to create by far the world's biggest tyres group.

At a stroke, warned analysts, every tyre-maker outside the "big three" that already dominate the $75bn industry – Goodyear/Sumitomo, Michelin and Bridgestone – would be vulnerable in an inevitable new round of consolidation as cost and pricing pressures mounted.

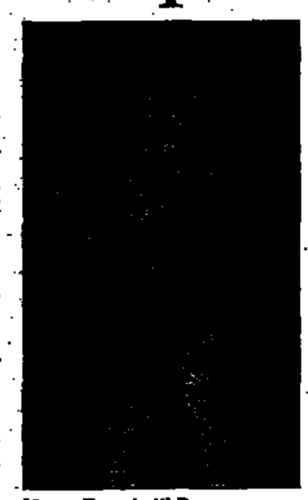
Almost within hours of the Goodyear/Sumitomo announcement, Yokohama Rubber, Japan's third largest tyre-maker, said that it, too, was looking for an alliance, or even a merger.

But the Pirelli/Cooper deal is most emphatically not a panic move, insists Marco Tronchetti Provera, chairman and chief executive of the Italian tyres and cables group. "We have been negotiating this for almost a year. It is part of a strategy which will allow Pirelli to remain an independent global player."

Of the Goodyear/Sumitomo deal, Mr Tronchetti Provera says: "You have to separate its psychological effects from the physical – the tyre is global but markets are still different. There is still room for companies like Pirelli to be a global player, with maybe a smaller share but higher profits and benefiting from alliances of the type we are forming with Cooper."

Pirelli is in good financial shape to enter what none of its senior executives dispute will be an era of heightened competition. First-half net profits were up 7 per cent at L254bn (€131.2m, $148m), and the group is expected to report a full-year figure in line with last year's L512bn.

Under the alliance, Cooper will market Pirelli's tyres in North America through a network of 5,000 outlets – much larger than anything Pirelli previously had access to, despite its purchase of US tyre-maker Armstrong about a decade ago. Cooper will also help Pirelli improve productivity at its US manufacturing facilities at Handford, California.



Marco Tronchetti Provera: insists deal is not a panic move

Cooper may be only the world's eighth largest tyre company, but its pre-tax earnings to sales ratio of 10.5 per cent in the first half of last year was the highest in the industry.

If all goes to plan, says Giovanni Ferrario, Pirelli chief executive, the two companies will be able to market a full range of tyres using all their brands to increase both partners' sales and double Pirelli's overall North American market share to 4 per cent. It already holds a 10 per cent share of North America's high-performance – and highest profit margin – tyres sector. Cooper itself has 17 per cent of the North American market.

In return, Pirelli will help Cooper gain access to South America, where Pirelli is market leader with a 35 per cent share.

The deal does not extend to Europe, where Cooper is still digesting last year's acquisition of Avon, the UK specialist tyre-maker, and where – says Mr Ferrario – "Pirelli is already large enough to compete with any of its rivals face to face".

The Cooper deal involves no equity participation and is described by Mr Ferrario as the ideal pattern for future alliances. "It is strictly an operating venture based on contractual arrangements between two companies with mutual interests. It's the right way to go – you don't want to jump into a situation where you're giving up the steering wheel of the company."

Leading edge technology puts ATI ahead of the game

The Canadian chipmaker has a dominant market position, but rival groups are snapping at its heels, writes **Scott Morrison**

Canada's ATI Technologies appears to have solidified its position as the world's leading producer of three-dimensional graphic chips with first-quarter sales almost doubling to US$327m, from $168m in the same period a year ago.

But the rapidly evolving graphics industry has seen its share of companies surge to the top with new chip designs, only to allow aggressive rivals to surpass them with new technology.

ATI now faces a series of challenges if it is to fend off a handful of smaller rivals, as well as Intel, the world's largest microprocessor manufacturer.

The first-quarter results, which showed earnings more than doubled at $52m, followed a bumper 1998 for the company. With a 33 per cent share of the $1.6bn market for 3D graphics chips, surpassing former market leader S3, ATI's share price more than doubled last year.

Most observers expect 1999 to be significantly better. But, as one technology market researcher cautions: "You're only as good as your last chip."

Graphics chips enable computers rapidly to generate the video images that users see on their screens, from simple bar graphs to the fast-moving, colourful three-dimensional scenes now common in the latest video games.

ATI has carved out a dominant market position by striking a crucial balance between performance and price, as well as by being the only large maker of graphics chips shipping products for both Apple and PC platforms.

To stay on the leading edge, ATI has invested heavily in research and development. Last autumn it introduced Rage 128, one of the fastest chips on the market, which Apple is installing in its new G3 desktop. A new ATI chip, four times faster than Rage 128, is expected by mid-1999.

Graphics from ATI's Rage 128 chip which is one of the fastest of its kind on the market

But some analysts believe it is only a matter of time before Intel, which purchases ATI chips for its computer boards, makes its presence felt in the graphics chip market.

The US chipmaker is at once a competitor, customer and partner in a technological alliance, and is scheduled soon to unveil a new integrated chip that combines the functions of a graphic chip with core logic capabilities.

Some analysts expect that Intel's new integrated chip will supplant stand-alone graphics chips in computers that sell for less than $1,000, where high performance is not the key concern.

Although ATI plans to introduce its own integrated chip later this year, some observers believe that Intel will use its clout to squeeze competing graphics chip makers out of the low-end market. That segment accounts for one-quarter of ATI's sales, according to Mercury Research, the US market research group specialising in computer components. "The integrated chip is a chaotic new variable for the entire graphics market," says Mike Feibus, Mercury analyst.

Another element of ATI's strategy is to diversify into consumer appliances, in particular set-top boxes used to integrate television and computers.

The company received a boost last autumn when it was selected to provide graphics and other technology to General Instruments, which expects to sell 15m set-top units in the US over the next three to five years. ATI is also moving to exploit opportunities in emerging technologies such as DVD, flat panel display screens and consumer appliances.

K.Y. Ho, ATI chief executive and co-founder, says the consumer appliance market will eventually become an important source of revenue as the company increasingly integrates its technology into a wide range of products.

Mr Ho forecasts that his company will expand its market share this year. Analysts, however, say the industry is simply too volatile to predict that ATI will remain the dominant graphics chip maker over the next few years.

CAR AND TRUCK MAKING DEBT-RIDDEN GROUP MAY ALLOW ANOTHER MANUFACTURER TO TAKE A CONTROLLING STAKE

Mitsubishi seeks a foreign partner

By Alexandra Harney in Tokyo

Katsuhiko Kawasoe, president of Mitsubishi Motors, has told the Financial Times he is actively seeking a foreign partner for a "business relationship", and would allow a foreign vehicles manufacturer to buy a controlling stake in the company as part of its effort to return to profitability.

The group is already viewed as a possible target amid the wave of consolidation in the global car and truck industry.

But it has more than Y2,000bn ($17.54bn) in debts and these pose a formidable obstacle to foreign suitors looking for a foothold in the Japanese and Asian markets. This was one of the reasons Mitsubishi had not entered talks about a capital tie-up with a foreign carmaker, Mr Kawasoe said.

He hinted that a strategic alliance in trucks was likely. "If we were to develop technology jointly with a foreign truck manufacturer, I think this would be extremely successful," he said. A technical tie-up was possible with DaimlerChrysler, he added.

"Generally speaking, we could share development technology because it is terribly expensive. Then, on the basis of that, we could share car lines and then share marketing. If I could see these would be win-win situations, I would be interested."

Mr Kawasoe said he was not asking for money to reduce the group's debts, but for a technical alliance to benefit both parties.

"The deals being made in the US and Europe right now are acquisitions, not mergers, except Daimler-Chrysler. In mergers, there is not necessarily an investment from the other party.

"In a merger, we could develop technology together without having to spend any money on each other," he said.

"The point of mergers is to decide how to handle technology, marketing and car lines, to use resources better. In that case, mergers are the same thing as acquisitions without making any monetary investment."

Mitsubishi's financial position – like that of rival Nissan Motor – is a stumbling block in negotiations with foreign car makers.

Nissan's Y4,300bn in interest-bearing liabilities are thought to be hampering its negotiations over an equity tie-up with DaimlerChrysler.

Unloved former giant craves a little attention

Suitors put off by debt and slow reforms, says **Alexandra Harney**

At a lavish reception for automotive industry executives in Tokyo earlier this year, Katsuhiko Kawasoe, president of Mitsubishi Motors, dropped another of his famous lines about his intentions for one of Japan's largest carmakers.

"I've got a shopping list," he said, "and it is very long." That line about the parts of the business Mr Kawasoe wants to sell generated a polite chuckle among reporters at the table. What could Mitsubishi sell, and who would want to buy it, someone asked. On this point, however, the loquacious Mr Kawasoe was suspiciously quiet.

Despite frequent sales calls at the offices of US and European automotive executives, neither Mr Kawasoe nor Japanese government officials have been able to sell any significant part of Mitsubishi and this is making investors uneasy about the carmaker's future.

The company's stock fell to an all-time low last year after Mr Kawasoe warned of parent net losses of Y9bn ($79m) on turnover of Y2,320bn. In 1997, the company recorded losses of Y25.7bn on sales of Y2,500bn.

On a group basis, the picture is worse. With losses from overseas and local subsidiaries, net losses were Y101.8bn. Debts have ballooned to over Y2,000bn as of last March, giving Mitsubishi one of the worst balance sheets in the industry. Moody's, the US credit rating agency, is expected to downgrade the company's debt to Ba1 – equivalent to junk bond status – this month.

How did Mitsubishi, whose share of the passenger car market has shrunk in the past four years, fall so far, so fast? Mr Kawasoe says the problems are a result of failing to follow rivals in restructuring.

The group only began restructuring last year – just as sales were collapsing and losses were growing.

"From 1990 until about 1997, Mitsubishi was the only auto company selling lots of cars and making money. When other companies were restructuring their operations, we didn't do anything . . . What they did then, we are doing now," he says.

The reforms Mr Kawasoe launched in November looked good on paper. A truck plant in Japan would be closed, the number of model platforms would be halved and interest-bearing debt would be cut to Y1,300bn by the end of 2000.

The carmaker would also eliminate 1,000 jobs at its US subsidiaries, sell assets in Japan and aggressively promote its fuel-injected engine.

Only months later, company executives are decidedly less optimistic. Restructuring at the truck and bus plants is plagued with problems, car sales are sluggish and the company is said to be mulling job cuts in Japan – although Mr Kawasoe calls that "the option of last resort".

Stoical: Katsuhiko Kawasoe says job cuts are a last resort AP

The push towards consolidation in the global automotive industry has deepened Mitsubishi's troubles. Ford's purchase of Volvo's car operations has raised questions about the future of NedCar, Mitsubishi's joint venture to build saloons and mini-vans with Volvo in the Netherlands – the plant where the Carisma, Mitsubishi's best-selling car in Europe, is built.

The Ford-Volvo deal could leave Mitsubishi without a partner in the region, or force it to withdraw from NedCar if the US group decided to use one of its own "platforms" as the basis for Volvo's next Netherlands-built model.

Meanwhile, Mitsubishi makes a risky merger partner for Ford and other US and European groups. With a market capitalisation of $2.6bn, it is the smallest and most expensive of the big five Japanese carmakers, according to Warburg Dillon Read.

Its debt-to-equity ratio of 5.5 is the highest in the industry and its US subsidiary is not expected to return to profit for at least two years.

One strategy would be to follow the example of Nissan Motor, which is negotiating to sell its truck business to DaimlerChrysler. Mr Kawasoe says he is loathe to sell the truck division which, until the collapse in truck and bus demand in Asia last year, provided between 30 and 40 per cent of sales. On cars, he appears more flexible.

But let the buyer beware. Any foreign partner would also have to deal with the likes of Mitsubishi Heavy Industries, the conservative machinery manufacturer that owns nearly 30 per cent of Mitsubishi Motors. Mr Kawasoe insists that relationship is valuable because it guarantees the support of the Mitsubishi *keiretsu*, or industrial group, and its main lender, the Bank of Tokyo-Mitsubishi.

Mitsubishi also has a chequered past in its relations with foreign carmakers. Its link with Chrysler, which owned 24 per cent of Mitsubishi as recently as 1985, fizzled out following the merger with Daimler-Benz. This was evident last month when DaimlerChrysler executives came to Tokyo for an exhibition and Jürgen Schrempp skipped a meeting with Mr Kawasoe.

Astra sweetens offer in debt talks

By Sander Thoenes in Jakarta

Astra International, the Indonesian carmaker, yesterday said it had sweetened its offer in troubled negotiations on restructuring $1.17bn in debt.

Astra proposed last week to add interest payments to an earlier offer, including $25m in early instalments, and increase the proportion of debt that would be repaid within three years, as opposed to six years.

The company, which assembles cars with Toyota and a host of other carmakers, also raised an offer for an early debt buy-back from 25 cents to 30 cents to the dollar, though it cut the total amount available from $70m to $45m, to free up $25m for interest payments.

Astra was among the most advanced in debt renegotiations among Indonesian enterprises and the talks were seen as a potential trendsetter. But its decision to halt interest payments last autumn caused some Japanese creditors to declare the company in default.

Rini Soewandi, Astra president director, said she had tried to accommodate bankers who objected to the debt buy-back, insisting on interest payments instead. She also pledged to speed up asset sales, aiming to raise Rp1,000bn ($115m) by the end of 2000 and ease concerns that Astra was unwilling to sacrifice profitable subsidiaries to save the core business.

Ms Soewandi insisted Astra could not afford larger interest payments. "This year will be our worst year, not 1998," she said, predicting domestic car sales of 24,000 this year, compared with 31,579 units in 1998 and 173,457 in 1997.

Astra went ahead with a separate buy-back of some Rp250bn in local bonds, however, because they were fully secured against the company's showrooms and service stations. The company also set aside Rp477bn to recapitalise its Bank Universal.

Several big shareholders have promised to transfer their stakes to the government, in payment of loans to their ailing banks. Ms Soewandi said this would put "close to 30 per cent" of the company in government hands.

Indonesia is strapped for cash but Ms Soewandi said she expected the government to hold on to the shares until a debt agreement was finalised.

Canon warns over demand in high street

By Paul Abrahams in Tokyo

Canon, the Japanese electronics giant, yesterday cautioned that its consolidated net profits would fall 36 per cent this year.

The warning, which underlines the deteriorating state of consumer demand in Japan and the damage inflicted by the appreciation of the yen to exports, came as the company posted its first drop in net earnings for five years, down 7.8 per cent at Y109bn ($956m).

The group, part of the troubled Fuyo *keiretsu*, blamed the fall in 1998 net profits on a 13.2 per cent increase in the tax charge to Y123.8bn.

However, operating profits also fell, by 4.8 per cent to Y260bn, as sales, general and administrative expenses rose 3.9 per cent. That compared with a 2.4 per cent increase in sales to Y2,826bn.

At the pre-tax level profits rose 2 per cent to Y239.5bn, mainly due to a big reduction in "other" expenses about which the company did not elaborate.

Earnings per share fell 7.9 per cent from Y134.6 to Y123.93. The results were announced after the market had closed and the shares closed up 1.25 per cent at Y2,430.

The company forecast this year's consolidated sales would be Y2,860bn, a rise of 1.2 per cent. The prediction was based on a yen/dollar rate of Y115, according to brokers Dresdner Kleinwort Benson, which added that a Y1 appreciation against the US currency could cut Y8.6bn off operating profits.

Toshizo Tanaka, Canon managing director, said the weak yen last year boosted the company's revenues by Y124bn, but the benefit had been muted by falling prices. "Most of the positive impact here was offset by cuts in product prices," he said.

Sales in Japan dropped 11.2 per cent to Y760bn, while those in the US jumped 12.7 per cent to Y1,005bn and in Europe 9.6 per cent to Y850bn.

Canon's cash and cash equivalents fell 22 per cent to Y499bn, but short term loans fell 24 per cent to Y403bn and long-term debt dropped 20 per cent to Y180bn. The company is among the most financially robust in the Fuyo group.

The operating results were boosted by the camera division, where results jumped 23 per cent to Y27.2bn, on sales up 8 per cent at Y267bn.

The company said this was mainly due to strong demand for its Advanced Photo System cameras, though sales of traditional SLR cameras were also up. The division accounted for about 10 per cent of turnover.

Operating profits at the business machines division – the most important – fell 0.7 per cent to Y316bn on sales up 2.5 per cent at Y2,358bn.

Canon blamed the poor domestic market for the fall, especially disappointing sales of computers and computer peripherals.

However, sales were boosted by a strong performance by laser printers and faxes overseas.

Philippine Airlines dives to a loss of 10bn pesos

By Tony Tassell in Manila

Philippine Airlines dipped further into the red for the nine months to December 31, leaving the ailing national carrier with an excess of liabilities over assets of more than 5bn pesos ($130m).

In a statement to the Philippine Securities and Exchange Commission, PAL said its losses fell to 10bn pesos for the period, nearly double the 5.2bn pesos suffered in the same period in 1997. It said the losses left PAL with a "capital deficiency" of $5.1bn at the end of December.

The airline has suffered steep losses due to a range of problems, including a high $2bn debt burden, falling demand for air travel in the wake of the regional crisis, a slide in Asian currencies against the dollar over the past 18 months, over-staffing, an over-ambitious fleet expansion and a 22-day strike by pilots in July.

Operating revenues tumbled by 66 per cent to 3.06bn pesos in the nine months. While operating expenses fell 59 per cent to 5.8bn, other charges increased by 1.2bn pesos as a result of an increase in financing costs and non-operating charges, particularly in relation to grounded aircraft.

PAL said its total assets fell by 4.5bn pesos between March and the end of December, due to depreciation on property and equipment, the sale of "certain aircraft" and write-offs on "pre-terminated" leases. At the same time, total liabilities rose 5.8bn pesos.

PAL said it was now in talks with creditors over the next two weeks to gain support for a rehabilitation plan – due to be presented to the SEC by March 15 – that would involve a substantial debt restructuring. The leading international creditors include the US Export Import Bank and leading European credit agencies.

"These meetings are quite crucial in that we shall be getting initial feed-back from our creditors on the viability of the plan . . . Their support is essential to the viability of the plan," PAL officials said in a letter to its 8,000-strong workforce.

The airline also said it was planning to sell off its maintenance and engineering base, which it described as its most marketable asset. It said the base was designed for more than 50 aircraft, much larger than its current fleet of 22 aircraft.

Edgardo Espiritu, the Philippine finance secretary, said the base should be worth at least $250m. Local press reports suggested Lufthansa, the German airline, may be a potential buyer.

Ponds buy lifts Hindustan Lever

By Krishna Guha in Bombay

The resilience of India's consumer goods industry was underlined yesterday when Hindustan Lever, the Unilever subsidiary which is India's biggest private sector company, announced a 33 per cent rise in profits for the calendar year 1998 to Rs11.3bn ($266m).

The results were boosted by the acquisition of Ponds India, another Unilever group company, last year. On a like-for-like basis group profits in India were up 23 per cent.

However, K.B. Dadiseth, chairman of Hindustan Lever, said 1998 was a year of downtrading. Consumers, hit by a big increase in the price of vegetables, had economised on purchases of consumer goods.

The rural market, which is a key volume driver, slowed progressively during 1998.

He said the current year would also be difficult, although there are some signs of a recovery in agricultural incomes.

Hindustan Lever's sales rose 21 per cent to Rs94.8bn. This growth came mainly from personal products and exports – both segments in which the former Ponds business contributed strongly.

Exports, including sales to Unilever businesses abroad, jumped 33 per cent to Rs16.6bn. Sales of personal products increased from Rs8.6bn to Rs15.3bn.

Hindustan Lever gained ground in the fierce battle to unseat Colgate Palmolive as market leader in India's toothpaste market.

By contrast, sales of soaps and detergents – Hindustan Lever's biggest business – grew only fractionally. The ice-cream business was hit by a price war.

Castrol tailors formula to suit Indian market

By Krishna Guha

India is a big driver of profits for Castrol, the lubricants arm of the Burmah Castrol group.

Castrol India, Burmah Castrol's 51 per cent owned subsidiary, last week announced a 7 per cent rise in pre-tax profits to Rs2.2bn ($51m) in a flat market. Net profits, aided by tax breaks, were up 13 per cent at Rs1.6bn.

"In terms of the size of our business there, India is extremely important," said Mike Dearden, chief executive of Castrol International. "It is probably number two in volume and profits to the US as a piece of turf."

The company has been the prime beneficiary of the liberalisation of India's lubricants market in 1993 – beating off competition from international oil majors. Since then Castrol India has been one of the local market's best performing stocks, showing an eight-fold increase in value in seven years.

Castrol India now has 20 per cent of the Indian market, up from 6 per cent in 1992, making it India's second biggest lubricants company after state-owned Indian Oil. In the consumer business it is number one, with a market share of 27 per cent.

Typically, the bulk of Castrol's business comes from the petrol car market. India is very much a diesel market. Cars make up only 4m of India's 38m vehicles – compared with 26m scooters and motor cycles, and 5m trucks and tractors.

The company adopted a business strategy similar to that employed by fast-moving consumer goods (FMCG) companies in India. Its cornerstone is mass market premium brands.

Castrol India charges a premium of 20-40 per cent across its product range, which it justifies on the basis of superior performance. Mr Savoor said Indian consumers are prepared to pay for the guarantee of quality.

"Many of our customers are one-truck owners. This machine is their life. They cannot afford to take a chance," he said.

The Indian product range is developed at a research centre near Bombay to meet the demand for lubricants which can protect ageing engines against dirty and dusty roads and highly sulphurous fuel.

While the company has a high marketing spend, it has kept a tight rein on fixed capital investment, even after building a state-of-the-art lubricants plant at Silvasa, in Gujarat.

Mukesh Palta, finance director, said Castrol India's return on capital is comparable to that of Hindustan Lever, Unilever's subsidiary in India, while its return on equity is higher, second only to Indian Tobacco Company, part owned by British American Tobacco.

Now the company is adopting another strategy which takes it closer to the FMCG model: selling consumer products through a network of 200 distributors rather than a direct sales force, which will greatly expand its reach in rural India.

Single-use lubricant sachets have been launched to give Castrol a way into the big scooter market, earlier tied up by the state-owned oil companies, which have a monopoly of petrol station sales. It already sells 10m sachets a month.

Meanwhile, Castrol is giving new emphasis to India's industrial lubricants market – where it has hitherto made little progress. Here brands matter less than product and price.

Castrol is relying on its new distribution network, sachet packs and industrial push to provide sales growth this year comparable to last years 7.5 per cent. It has to win business: the overall market is not growing at all.

This highlights one fundamental difference between Castrol and its FMCG peers in India: demand for its products is derived from the automobile and industrial sectors, which are wallowing in low to negative growth.

NEWS DIGEST

AIRLINES

Oneworld aims to expand and jointly buy aircraft

The seven airlines which formed the Oneworld alliance said yesterday they were in talks with other airlines to expand the global grouping and were also considering combined purchases of aircraft.

James Strong, chief executive of Qantas Airways, Australia's leading carrier, said Oneworld's talks with other airlines were at "various stages". After a quarterly meeting in Sydney, chief executives of airlines in the alliance announced the entry of Iberia, the Spanish carrier, to Oneworld, which also includes Qantas, American Airlines, British Airways, Cathay Pacific Airways, Canadian Airlines and Finnair. The airlines have merged their timetables and frequent flyer programmes to cover 632 destinations in nearly 140 countries.

The entry of Iberia followed the joint purchase last week by BA and American Airlines of 10 per cent of the Spanish airline. The Spanish government is expected to float more than 50 per cent of the airline later this year. Finnair, which joined Oneworld in December, is also in the process of floating.

Mr Strong said more members would soon join the alliance. Colin Marshall, chairman of British Airways, earlier suggested Japan Airlines, Japan's leading carrier, would join Oneworld. JAL has a bilateral alliance with BA under which they share booking codes and frequent flyer programmes and has bilateral ties with other Oneworld airlines. JAL's main competitor, All Nippon Airways, is set to join the rival Star alliance, led by United Airlines and Lufthansa. Star also includes Scandinavian Airlines System, Air Canada, Thai Airways and Varig, the Brazilian carrier.
Gwen Robinson, Sydney

■ **Thai Airways International**, the country's state-owned flag carrier, said yesterday that recorded a profit of Bt6.29bn ($170m) in the first quarter of its financial year ending December 31, compared with a loss of Bt26.66bn in the same period a year earlier. The turnround was largely due to the airline booking foreign exchange gains of Bt3.69bn on the back of a strengthening baht. The value of the baht increased by 7 per cent in the quarter compared with the same period the year before. Depreciation costs were also down as the airline extended its depreciation policy on aircraft to 20 years from 14 years.
Ted Bardacke, Bangkok

AUSTRALIA

Pacific Dunlop close to sale

Pacific Dunlop, the Australian diversified manufacturer, said yesterday it would shortly finalise the sale of its GNB Technologies lead battery unit to Quexco of the US. The sale, announced last July, was postponed due to delays in approval from the Federal Trade Commission of the US and price renegotiations. GNB's sale price was subsequently lowered to A$783m (US$313m) from the initial price of A$900m.

Pacific Dunlop said yesterday the lower sale price hit its bottom-line profits in the six months to December, cutting A$94m off net profit after extraordinary charges to just A$7.7m. Before extraordinary items, however, the group's net profit rose 13 per cent to A$102m. Sales increased 4.2 per cent to A$3.2bn. Rod Chadwick, managing director, said Pacific Dunlop would achieve higher profits in the second half on continued cost-cutting and greater market share. **Gwen Robinson**

SECURITIES CUSTODY

Toyo may transfer business

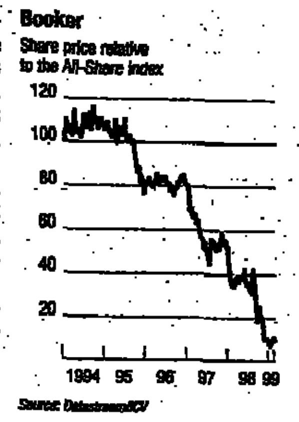
Toyo Trust & Banking said yesterday it was considering transferring its overseas securities custodian operations to Chase Manhattan of the US. "We have held discussions with Chase Manhattan since November last year on a possible transfer of our overseas custodian business, but we have not yet reached an agreement," Toyo Trust said.

The trust bank offers custodian services in Hong Kong and New York for institutional investors and Japanese pension funds. **Reuters, Tokyo**

COMMENT

Booker

Is Booker going forwards or backwards? Following yesterday's 10 per cent fall, the cash-and-carry group's shares are now worth around half the 124p per share Stuart Rose, new chief executive, paid for his stock on arrival in September. To be fair, though, this represents not so much value destruction on his part as belated recognition of Booker's miserable state. Making a dent in Booker's borrowings – at some £400m they are 2½ times the company's market capitalisation – is clearly not easy. Yesterday's sale for just £4.4m of part of a lossmaking food delivery service with turnover of £224m and the closure of several regional distribution centres will actually add to the overall debt burden. Around £7m-£8m of the £23m exceptional loss on disposal is cash, not just accounting write-offs.



Source: Datastream/ICV

Still, the disposal does clear the decks for the real test – selling the food service division, which at a pinch could fetch £100m-£150m, and raising cash-and-carry margins. Since lifting interest cover to above 2½ times is Booker's priority, costs must also fly out of the window. The moment has surely come for it to pass on sponsorship of the eponymous literary prize to a company whose shareholders will benefit more from it. Against the backdrop of yesterday's 600-odd redundancies, it is a tasteless extravagance.

British Biotech

Elliot Goldstein, British Biotech's chief executive, must wonder why he bothers going to work every day. At 21½p, British Biotech is now trading at a discount to its asset value of 25p-30p a share, of which 15p is cash. This ascribes a minimal value to the company's technology and knowhow, built up at such expense.

Such discounts are not unusual for the bombed-out biotech sector, where several companies are trading at or below asset value. But they raise the question why, if the technology is so desirable, strategic buyers are not queuing up. The answer is that pharmaceutical companies would rather cherry pick biotech portfolios through licensing deals than own the infrastructure. In the absence of an early exit, British Biotech shareholders must therefore continue hoping its key cancer drug will ultimately make money. This is still an uncertain prospect, but at least that is fully recognised in the share price.

British Biotech becomes a victim of its own hype

David Pilling says the desire to provide investors with a constant "newsflow" diet can tempt biotech companies to exaggerate

British Biotech, which yesterday shocked the market with disappointing trial results of a key cancer therapy, has suffered a vertiginous fall from grace.

Less than two years ago it was still seen as the standard bearer for the flourishing UK biotechnology scene.

It was the first company with innovative science and a topsy-turvy business model – involving "burn rates" rather than profits – to capture the imagination of UK investors. Keith McCullagh, until last year the company's chief executive, was anointed figurehead of an entirely new sector.

When the evangelical Mr McCullagh told the City he was developing a novel cancer drug that could arrest the spread of all types of tumour, investors lapped it up. When he said the company intended to keep all the value itself – by shunning alliances with pharmaceutical companies and developing its own marketing force – British Biotech's valuation soared to nearly £2bn.

In May 1996, with the shares valued at 326p, it stood on the verge of the FTSE 100.

To US investors, who had witnessed the rise and fall of many biotech companies, the euphoria surrounding the Oxford start-up smacked of naïveté. Most drugs take 10 years to develop and the vast majority never make it to market.

"Big pharma", the name given to established pharmaceutical companies, has scores of drugs under development; and can kill off any one of them with impunity. Biotech companies, which may have only one or two projects, do not have the luxury of "burying their dead at night".

From the US perspective, the hype surrounding British Biotech presaged trouble.

This came in the form of Dr Andrew Millar, the clinical research director of the company, who became convinced it was sending an overly optimistic message to investors. When he was sacked last April for sharing his concerns with shareholders, he made allegations that sent the value of the shares plummeting.

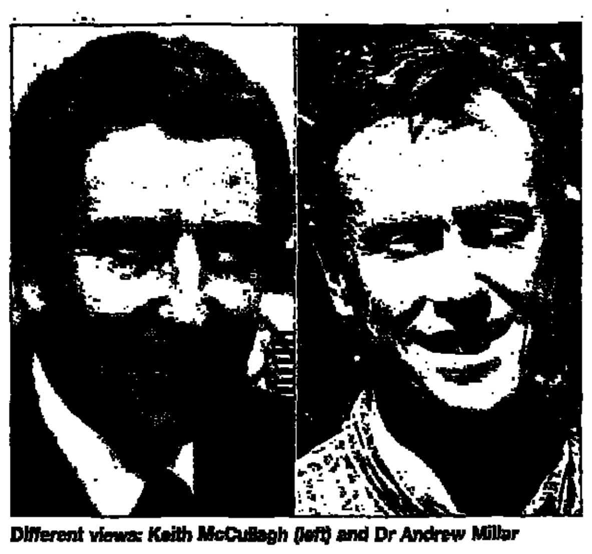
Dr Millar also disclosed that the US Securities and Exchange Commission was investigating news releases issued in 1995 and 1996, which may have exaggerated the likely efficacy of marimastat, British Biotech's novel cancer therapy.

Yesterday's announcement that marimastat appears no more effective than an existing treatment has lent weight to the concerns.

It also goes to the heart of the City's difficulties in valuing biotech shares. Scientists do not believe findings until they are proved with painstaking experiments and validated by peer review.

Investors, on the other hand, require a constant diet of "newsflow" and the disclosure of any facts deemed "material".

For a small biotech company, with a handful of employees and mounting losses a promising scientific lead, even if years from validation in clinical trials, may look like important news. The temptation for a company is to put too positive a spin on the information available.


Different views: Keith McCullagh (left) and Dr Andrew Millar

British Biotech's shares were hit by the gradual realisation that Mr McCullagh's gloss on events appeared not to match reality.

Since last year's bust-up, which led to the resignation of Mr McCullagh and the appointment as chief executive of Dr Elliot Goldstein, a recruit from "big pharma", British Biotech's shares have continued to slide. Dr Goldstein has scaled back operations and expectations.

Yesterday's news provoked a further fall, by 4½p to 21½p, valuing the company at little above its cash value.

That puts it in good company. British Biotech's fall from grace has depressed sentiment towards the sector and the technology of several biotechnology companies is valued at zero. PPL, the Scottish company that cloned Dolly the sheep, would be worth as much if it were a working farm producing lamb chops.

Analysts say it would be wrong to write off the sector.

When British Biotech came along "there weren't that many people in London who knew how to value these things properly", says Erling Refsum, analyst at Nomura International. "The bottom line is we got it wrong ... We're all on a steep learning curve – investors, analysts, financiers and the companies themselves."

Mr Refsum believes the backlash against the sector – and perhaps even against British Biotech itself – has gone too far.

True, individual biotech shares are difficult – some would say impossible – to value. Either their science fails, in which case they may be worthless, or it succeeds, turning them into billion-dollar concerns.

But the sector as a whole, which services a pharmaceutical industry that is outsourcing an increasing percentage of its research, is likely to grow rather than diminish.

"Fallen angels take an awfully long time to return to grace. But these companies are not going to evaporate overnight," says Mr Refsum. "And a couple of them are going to make absolute fortunes. The difficulty is spotting them."

Top executive quits Barclays

By George Graham, Banking Editor

Barclays, the UK banking group that last week appointed Michael O'Neill to succeed Martin Taylor as chief executive, has lost another senior executive.

Megan Richardson, director of group planning, policy and governance, is to leave next month. Mrs Richardson had been viewed as a high-flyer within Barclays and tipped as a contender to become its first female executive director.

After the abrupt departure late last year of Mr Taylor, who had been chief executive for five years, Andrew Buxton is to step down as chairman in April. Oliver Stocken, the finance director, is also leaving, and Elizabeth Wade, director of corporate communications, has already left.

However, bank officials insisted Mrs Richardson's resignation was not connected to the turmoil in the bank's top management. Her husband, Ian Richardson, is to remain with the bank, where he holds a senior position in the retail financial services division.

Other Barclays staff, however, expect further upheaval when Mr O'Neill, who previously ran the principal investing and wealth management division of Bank of America, joins on March 26. Some senior executives are already looking elsewhere.

Barclays will today report its results for 1998, and is expected to announce pre-tax profits of about £1.85bn ($2.96bn).

It had issued a profits warning at the time of Mr Taylor's departure, indicating that profits would be not be less than £1.9bn. Since then, however, it has announced a further £76m charge to settle a long-running lawsuit brought by the receivers of British & Commonwealth Holdings.

Retail financial services, with trading profits forecast at more than £1.4bn, and corporate banking, with trading profits in excess of £900m, have continued to perform well.

Salzgitter sale of 'interest' to BS

By Kevin Brown

British Steel said yesterday that it was aware of German newspaper reports suggesting that Salzgitter, the German steelmaker it tried to buy last year, might be for sale.

British Steel said it was "potentially interesting" that all or part of the company might be available.

However, the company is believed to have made no moves to resuscitate its bid for Salzgitter, which was blocked on public interest grounds by Gerhard Schröder, at the time premier of Lower Saxony, who is now German chancellor.

John Bryant, who succeeded Sir Brian Moffat as British Steel chief executive last month, has said he wants to reduce the company's dependence on steel-making, and on the UK market.

Mersey Docks reaps rewards of strike-free year

By Susanna Voyle

The port of Liverpool used to be synonymous with industrial strife, the epitome of the "them and us" mentality which paralysed British industry.

Today, however, peace has broken out along the waterfront and the port is booming, thanks in part to the runaway Irish economy.

The beneficiary is Mersey Docks and Harbour Company which yesterday announced a 37.5 per cent increase in pre-tax profits to £47.8m ($78m) last year.

Only a year ago, the group ended its two-year dispute with a group of 327 sacked dockers – one of the longest industrial conflicts in the UK. The 1997 figures included an £10m exceptional charge for the settlement of the strike, which slightly flatters yesterday's figures.

But the group has made an extra effort to end the divisions between management and workers – encouraging workers to take a stake in the company. About 70 per cent of its 1,078 employees are potential investors after they signed up for a savings scheme allowing them to buy shares.

● Associated British Ports, the largest UK ports group, has passed over a senior executive that many in the City saw as chief executive designate, and has instead appointed Bo Lerenius, former chief executive of Stena Line, writes Charles Batchelor.

It was thought Andrew Smith, 47, managing director of ABP's ports division for the past two years, was being groomed as a possible successor to Sir Keith Stuart, who has held the joint positions of chairman and chief executive.

Mr Lerenius, 52, became vice-chairman of Stena Line and director of new business investments at Stena Line's parent company Stena AB after stepping down as chief executive of the ferry company in 1998.

ABP's shares fell 13½p to 265p.

Booker makes wholesale exit

By Alison Smith

About 850 jobs are to go in the food industry as Booker, the food distribution group, closes part of its wholesale business with the loss of about 600 jobs, and Hazlewood Foods shuts its sliced cooked meats operation at Wisbech.

Booker announced the job losses alongside a deal to sell the remainder of Booker Wholesale Foods to Palmer & Harvey McLane for up to £4.4m ($7.2m) cash. The disposal will mean an estimated exceptional loss in Booker's accounts of about £23m for write-offs of goodwill, closure costs, fixtures and fittings and stock. The business made a loss of about £1m last year, on turnover of £224m.

The move is part of Booker's strategy of focusing on its core cash and carry business. "This sale will allow us to increase our focus on the areas of the business where we can improve profitability," said Stuart Rose, chief executive.

The disposal programme has already seen the sale of Booker's Danish seeds business for £29m and its fish and fish-processing businesses for £47.5m. The Arbor Acres poultry business and Booker Foodservice, the catering division, are also up for sale.

Hazlewood said its closure would mean an exceptional cost of up to £20m.

Investors treated the two announcements in strikingly different ways. Shares in Booker slipped 10 per cent to 64¼p, while those in Hazlewood rose 3½p to 118½p.

RESULTS

	Period	Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Albemarle & Bond ϕ	6 mths to Dec 31	4.15	(3.54)	1.1	(0.926)	1.92	(1.69)	0.5	May	0.25	-	0.99
British Biotech	9 mths to Dec 31	3.71	(0.368)	24.5L♠	(30.8L)	3.8L	(4.7L)	-	-	-	-	nil
Dicom	6 mths to Dec 31	43.8	(32.8)	1.2	(0.07L♠)	7.2	(nil)	0.92	May 4	0.92	2.4	-
Hercules Prop ϕ	6 mths to Dec 31	5.1	(3.24)	1.47♠	(1.09)	13†	(14.5)	1.2	Jul 6	1	-	5
Jorsine ϕ	Yr to Sept 27 ★	27.29	(19.91)	0.34♠	(0.51)	1.9†	(3.1)	-	-	-	-	-
Mersey Docks	Year to Dec 31	179.7	(168.5)	47.8	(34.6♠)	38.3	(27.56)	11	Apr 29	10	16	14.5
Royalblue	Year to Dec 31	29.51	(20.65)	4.54	(2.04♠)	11	(4.2)	2	Apr 1	1.5	3	2.25
Workspace	9 mths to Dec 31	16.8	(15.4)	6.15♥	(4.13)	28.3	(20.4)	-	-	-	-	17

Investment Trusts	Period	NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Second Alliance	6 mths to Jan 31	3015	(2730)	5.12	(5.4)	26.89	(28.11)	20.5	Apr 1	18	-	54

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ϕAim stock. ★ Comparatives restated.

PUBLIC NOTICE

NOTICE PUBLISHED BY THE SECRETARY OF STATE UNDER SUBSECTIONS 8(5) AND 10(6) OF THE TELECOMMUNICATIONS ACT 1984

The Secretary of State hereby gives notice as follows.

1. He proposes to grant licences under the Telecommunications Act 1984 ("the Act") to Farland Services UK Limited, MTU Inform Europe Limited, GC Pan European Crossing UK Limited and ICO Services Limited ("the Licensees") to run telecommunication systems in the United Kingdom. The licences will be for a period of 6 months, thereafter being subject to revocation on one month's notice.

2. The principal effect of each licence will be to enable each Licensee to install and run telecommunication systems in the United Kingdom which may be connected to telecommunication systems outside the United Kingdom, and to provide a wide range of services but not any domestic services (i.e. services involving the *conveyance of messages which originate and are subsequently to terminate in the United Kingdom)* or mobile radio services. Each Licence authorises connection to a wide range of other systems, including earth orbiting apparatus.

3. Each licence will be subject to conditions such that section 8 of the Act will apply to it, thereby making each of the systems run under each licence eligible for designation as a public telecommunication system under section 9 of the Act. It is the intention of the Secretary of State to designate each of the Licensees' systems as a public telecommunication system.

4. The Secretary of State proposes to grant each licence in response to an application from each Licensee for such a licence because he considers that it will help to satisfy demands in the United Kingdom for the provision of services of the type authorised, will promote the interests of consumers in respect of the quality and variety of such services, and will maintain and promote effective competition between those engaged in the provision of telecommunication services.

5. He proposes to apply the telecommunications code ("the Code") to Farland Services UK Limited, MTU Inform *Europe Limited and GC Pan European Crossing UK Limited subject to certain exceptions and conditions* throughout the United Kingdom. The effect of the exceptions and conditions to the application of the Code is that Farland Services UK Limited, MTU Inform Europe Limited and GC Pan European Crossing Limited will each have duties:

(a) to comply with various safety and environmental conditions, in particular (with certain exceptions) to install lines underground or only on such above-ground apparatus as is already installed for any purpose;

(b) to comply with conditions designed to ensure efficiency and economy on the part of each of them, in connection with the execution of works on land concerning the installation, maintenance, repair or alteration of their apparatus;

(c) to consult certain public bodies before exercising particular powers under the Code, including the local planning and highway authorities and English Nature, Scottish Natural Heritage, the Countryside Council for Wales, the National Trust and the National Trust for Scotland, as well as relevant electricity suppliers;

(d) to keep and make available records of the location of underground apparatus and copies of the exceptions and conditions in their respective licences to their powers under the Code; and

(e) to ensure that sufficient funds are available to meet certain liabilities arising from the execution of street works.

6. The reason why the Secretary of State proposes to apply the Code to Farland Services UK Limited, MTU Inform Europe Limited and GC Pan European Crossing UK Limited is that they will each need the statutory powers in the Code to install and maintain the telecommunication systems which are to be installed and run under their proposed licences.

7. The reasons why it is proposed that the Code as applied should have effect subject to the exceptions and conditions referred to above are that they are considered requisite or expedient for the purpose of securing that the physical environment is protected, that there is no greater damage to land than necessary, that the systems are installed as safely and economically as possible, and that each Licensee to whom the Code is applied can meet (and relevant persons can enforce) liabilities arising from the execution of works.

8. *Representations or objections may be made in respect of the proposed licences, the application of the Code to* Farland Services UK Limited, MTU Inform Europe Limited and GC Pan European Crossing UK Limited and the proposed exceptions and conditions referred to above. They should be made in writing by 16 March 1999 and addressed to the undersigned at the Department of Trade and Industry, Communications and Information Industries Directorate, 2.80 Grey, 151 Buckingham Palace Road, London SW1W 9SS. Copies of the proposed licences can freely be obtained by writing to the Department or by calling 0171 215 1756.

Alan D Proud — 16 February 1999
Department of Trade and Industry

EQUITIES

US bond yields weigh down euro-zone

EUROPEAN OVERVIEW

By Khozem Merchant

Euro-zone markets started weak on the back of a further deterioration in US treasury bond yields on Friday before regaining ground and closing largely unchanged.

Analysts believe the US treasury market will set the tone for equities trading in the days ahead. The markets were also disappointed by a feeble interest rate adjustment by the Bank of Japan.

The US markets were closed and much of Asia was heading for the Chinese New Year celebrations, so euro-zone markets operated in relative isolation.

The increased likelihood of industrial action in Germany by the country's largest union took the shine off some cyclical stocks, which since the start of the year have enjoyed positive movement.

Positions hardened on both sides of the face-off yesterday, hitting steel and chemical stocks. These cyclicals lost more steam because of profit-taking, now in its third day.

Bank stocks were among the better performers, driven by merger talk, especially in Spain, but that disguised some disappointing individual performances. Deutsche Bank, which is due to report results this week, lost €7 to €45.76 amid concerns over emerging market exposure.

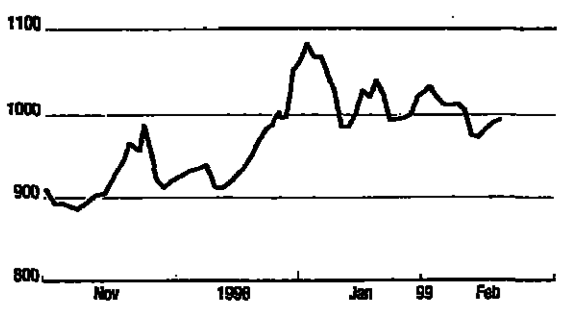
In the UK, there was strong follow-through from last week's exceptionally good results from Lloyds TSB. Barclays, which appointed a new chief executive last week, reports today. It gained €1.1 to €23.02.

The motor sector was again dominated by problems within the BMW group. There is continuing speculation that the dominant family behind BMW may be seeking a form of cross-shareholding with Volkswagen as the best way forward in terms of dealing with its problematic UK subsidiary, Rover. BMW's share price gained €21.7 to €745.7. Renault shed €5 to €44.01.

The FTSE Eurotop 300 index of leading European shares ended 0.68 up at 1,201.04, while the FTSE Eurotop 100 index improved slightly by 0.90 to 2,745.60. The FTSE Ebloc 100 index of shares in euro-zone companies closed marginally up 0.41 at 993.60.

Some of the better performing sectors were leisure entertainment and hotels, with Granada, up €5 to €16.92, and Accor, up €6.6 to €222.30, leading the way.

FTSE Ebloc 100



Source: FTSE International

■ THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.950	96.950	-	96.955	96.945	14962	140738
Jun	97.040	97.045	-0.010	97.065	97.040	17488	116160
Sep	97.080	97.080	-0.020	97.105	97.075	13340	69148
Dec	96.855	96.825	-0.040	96.856	96.825	5409	73148

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.950	96.950	-	96.955	96.945	810	160786
Jun	97.045	97.045	-0.010	97.095	97.045	2057	126109
Sep	97.085	97.080	-0.020	97.095	97.060	1285	122894
Dec	96.855	96.825	-0.040	96.855	96.820	727	99489

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100 - rate

Strike Price	Calls Mar	Calls Jun	Calls Sep	Calls Dec	Puts Mar	Puts Jun	Puts Sep	Puts Dec
96875	0.090				0.015			
97000	0.040	0.135	0.205	0.160	0.090	0.080	0.105	0.295
97125	0.010				0.185			
97250	0.005	0.045	0.100	0.085	0.305	0.240	0.250	0.470

Est. vol. total, Calls 604 Puts 531 Previous day's open int., Calls 345980 Puts 178035

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) €20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	2730.0	2760.0	+30.0	2730.0	2730.0	27	7194
Jun		2764.0	+30.0			0	0

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) €10 per index point

	2600 C	2600 P	2650 C	2650 P	2700 C	2700 P	2750 C	2750 P	2800 C	2800 P	2850 C	2850 P	2900 C	2900 P	2950 C	2950 P
Feb	160	6	114	10	72	19	40	38	17	67	7	107	3	154	2	204
Mar	210	57	174	70	140	87	111	108	85	132	63	161	46	194	33	230

Est vol total - Prev day's open interest total 5,828. Premiums shown are based on settlement prices.

OTHER INDICES

	Feb 15	Feb 12	Feb 11	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3381.00	3359.43	3321.13	3670.82	2433.07	3670.82	2433.07
DJ Euro Stx 50	3414.97	3405.68	3375.42	3686.36	2419.23	3686.36	2419.23
MSCI Europe	(u)	1178.72	1172.22	1315.55	906.59	1315.55	510.78

Source: Financial Times Information. *Subject to revision next day. (u) unavailable.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Feb 15 National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total return (Euro) €
FTSE Eurotop 300	1201.04	+0.68	+8.15	2.27	0.61	1237.32
FTSE Eurotop 100	2754.60	+0.90	+24.51	2.31	1.67	988.12
FTSE Ebloc 100	993.60	+0.41	+4.02	2.10	0.39	1008.96
FTSE Eurobloc	1183.80	+0.12	+1.45	2.63	1.22	1226.00
FTSE Eurobloc Ebloc	1190.57	-0.09	-1.04	2.36	1.38	1217.15
FTSE Eurobloc Ex UK	1233.75	+0.12	+1.44	2.21	0.85	1257.27
FTSE Eurotop 300 Regions						
Eurobloc	1245.12	+0.35	+4.40	2.06	0.89	1272.46
UK	1142.13	+1.35	+15.23	2.66	0.73	1199.97
Europe Ex-Eurobloc	1167.29	+1.03	+11.91	2.51	0.52	1209.57
Europe Ex-UK	1235.25	+0.34	+4.19	2.07	0.54	1258.91
FTSE Eurotop Industry Sectors						
RESOURCES	844.65	+1.16	+9.71	3.44	0.94	863.63
Mining	673.98	-0.22	-1.67	4.02	0.00	692.38
Oil & Gas	811.04	+1.23	+9.82	3.41	0.94	831.64
BASIC INDUSTRIES	1054.21	+0.08	+0.81	2.81	0.86	1077.53
Chemicals	813.76	+0.47	+3.82	2.77	0.65	828.79
Construction & Bld Matls	944.24	-1.25	-11.96	2.47	1.13	953.60
Forestry & Paper	890.79	-0.01	-0.06	4.03	0.00	931.52
GENERAL INDUSTRIALS	1105.61	+0.41	+4.51	2.43	1.04	1130.18
Aerospace & Defence	814.06	+1.27	+10.25	2.03	0.00	825.29
Diversified Industrials	967.37	+0.95	+9.13	2.08	0.00	989.49
Electronic & Elect Equip	995.31	-1.08	-10.83	1.89	1.50	1002.23
Engineering & Machinery	984.15	+1.45	+14.04	3.68	1.85	999.42
CYCLICAL CONS GOODS	1313.43	+1.37	+17.79	2.51	0.00	1349.57
Automobiles	974.58	+1.19	+11.46	2.38	0.00	983.62
Household Goods & Texts	1287.40	+2.38	+29.98	3.23	0.00	1298.39
NON-CYC CONS GOODS	1203.49	+0.67	+8.00	1.51	0.06	1236.65
Beverages	908.59	+0.74	+6.65	2.97	0.00	929.23
Food Producers & Procesrs	894.50	+1.14	+10.12	1.73	0.00	905.02
Health	825.63	+0.61	+4.99	7.10	0.00	837.98
Packaging	786.99	-0.26	-2.06	1.15	0.00	787.97
Personal Care & Hse Prods	1108.67	+0.73	+7.99	0.88	0.00	1118.34
Pharmaceuticals	1103.30	+0.45	+4.91	1.17	0.00	1109.29
Tobacco	1416.64	+1.34	+18.68	2.80	1.42	1445.02
CYCLICAL SERVICES	1285.44	+0.63	+7.87	2.42	0.95	1303.47
Distributors	719.76	+3.15	+21.97	4.10	0.00	727.84
General Retailers	1014.80	-0.02	-0.21	3.14	1.06	1036.79
Leisure Entertnt & Hotels	912.76	+2.74	+24.34	2.24	6.02	931.74
Media & Photography	1172.20	+1.45	+16.80	1.94	0.00	1184.72
Rests, Pubs & Breweries	811.73	+1.78	+14.19	3.44	2.64	838.13
Support Services	1062.51	-0.99	-10.59	1.39	0.00	1073.78
Transport	952.08	-0.02	-0.15	2.63	1.81	971.46
NON-CYCLICAL SERVS	1343.70	+0.80	+10.66	1.50	0.44	1383.49
Food & Drug Retailers	1021.89	-1.25	-12.91	2.03	0.51	1038.00
Telecommunications Servs	1334.20	+1.26	+16.55	1.40	0.39	1354.49
UTILITIES	1468.41	+0.56	+8.24	3.03	3.71	1561.22
Electricity	1130.11	+0.51	+5.71	3.13	3.42	1169.81
Gas Distribution	1177.45	+1.38	+16.01	1.62	1.00	1297.48
Water	942.92	-0.74	-7.02	5.31	2.42	988.61
FINANCIALS	1263.77	+0.72	+9.01	2.66	0.23	1298.50
Banks	883.53	+1.31	+11.45	3.43	0.28	896.38
Insurance	967.38	-0.16	-1.55	1.45	0.00	979.05
Life Assurance	1126.06	-0.04	-0.46	1.75	0.00	1140.68
Investment Companies	982.80	+0.19	+1.84	1.81	0.00	1006.37
Real Estate	694.68	-0.78	-5.44	3.50	0.00	712.74
Speciality & Other Fin	890.55	+0.80	+7.11	2.53	0.00	905.42
INFORMATION TECH	900.51	-0.26	-2.37	0.69	0.04	902.70
Information Tech Hardware	954.42	+0.05	+0.51	0.76	0.00	958.70
Software & Computer Serv	777.53	-1.16	-9.16	0.49	0.15	779.52

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CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

Feb 15		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA
Europe												
Czech Rep.	(Koruna)	38.1912	+0.2864	653 - 171	38.2200	37.6450	38.3413	-4.7	38.7393	-5.7	40.1983	-5.2
Denmark	(DKr)	7.4387	+0.0037	365 - 409	7.4411	7.4347	7.4416	-0.5	7.4500	-1.1	7.4776	-0.5
Greece	(Dr)	321.853	-0.0440	641 - 065	323.000	319.969	323.4584	-6.0	327.4527	-7.0	340.5845	-4.8
Hungary	(Forint)	249.698	+0.1160	530 - 865	250.310	249.260	252.3211	-12.6	257.7749	-12.9	278.1678	-11.4
Norway	(NKr)	8.5968	-0.0004	905 - 029	8.6080	8.5750	8.6262	-4.1	8.6949	-4.6	8.8353	-2.8
Poland	(Zloty)	4.2755	+0.0246	689 - 821	4.2835	4.2060	-	-	-	-	-	-
Romania	(Leu)	13966.40	-64.5700	931 - 348	13694.00	13844.00						
Russia	(Rouble)	28.0743	+0.0052	404 - 082	26.1158	25.9871						
Slovakia	(Koruna)	42.9431	-0.0177	926 - 937	43.0700	42.3345						
Sweden	(SKr)	8.8791	-0.0136	715 - 867	8.8900	8.8580	8.8802	-0.1	8.8872	-0.8	8.8985	-0.2
Switzerland	(SFr)	1.5977	+0.0014	970 - 984	1.5995	1.5940	1.5953	1.8	1.5933	1.1	1.5734	1.5
UK	(£)	0.6900	-0.0022	897 - 903	0.6927	0.6884	0.6913	-2.3	0.6940	-2.8	0.7042	-2.1
Americas												
Argentina	(Peso)	1.1235	-0.0037	232 - 238	1.1300	1.1219	-	-	-	-	-	-
Brazil	(R$)	2.1349	-0.0136	232 - 466	2.1471	2.1232	-	-	-	-	-	-
Canada	(C$)	1.6776	-0.0068	766 - 787	1.6865	1.6753	1.6802	-1.7	1.6886	-2.6	1.7118	-2.0
Mexico	(New Peso)	11.1635	-0.0607	554 - 716	11.2342	11.1425	11.3983	-25.2	11.9183	-27.0	13.9088	-24.6
USA	($)	1.1237	-0.0041	234 - 239	1.1302	1.1221	1.1252	-1.6	1.1308	-2.5	1.1479	-2.2
Pacific/Middle East/Africa												
Australia	(A$)	1.7394	-0.0055	377 - 411	1.7452	1.7330	1.7412	-1.2	1.7484	-2.3	1.7725	-1.8
Hong Kong	(HK$)	8.7072	-0.0330	047 - 097	8.7500	8.7037	8.7290	-3.0	8.7968	-4.1	9.1275	-4.8
India	(Rs)	47.7004	-0.1761	855 - 152	47.9793	47.5995	48.0025	-7.6	48.7883	-9.1	52.3859	-9.8
Indonesia	(Rupiah)	9863.40	-148.47	507 - 174	9788.00	9544.00	9907.43	-30.3	10533.12	-36.0	12914.00	-33.6
Israel	(Shk)	4.5987	-0.0208	529 - 645	4.8937	4.5446	-	-	-	-	-	-
Japan	(Y)	129.810	+0.8970	730 - 889	130.100	128.600	129.5164	2.7	129.1182	2.1	128.2518	2.7
Malaysia	(M$)	4.3888	-0.0167	889 - 690	4.2944	4.2840	-	-	-	-	-	-
New Zealand	(NZ$)	2.0555	+0.0027	537 - 573	2.0629	2.0509	2.0565	-0.6	2.0644	-1.7	2.0917	-1.8
Philippines	(Peso)	43.4291	+0.0087	071 - 511	43.7953	43.2578	43.7386	-8.5	44.4872	-9.7	47.7241	-9.9
Saudi Arabia	(SR)	4.2143	-0.0155	131 - 154	4.2388	4.2085	4.2251	-3.1	4.2594	-4.3	4.3868	-4.1
Singapore	(S$)	1.9807	-0.0054	997 - 016	1.9075	1.8895	1.8896	0.7	1.9000	0.1	1.9094	0.0
South Africa	(R)	6.8880	+0.0084	752 - 007	6.9090	6.8586	6.9543	-11.6	7.0964	-12.2	7.6695	-11.2
South Korea	(Won)	1320.91	-4.8800	932 - 249	1327.31	1317.31	-	-	-	-	-	-
Taiwan	(T$)	36.2949	-0.1340	297 - 582	36.4810	36.2270	36.4847	-6.3	36.8347	-6.0	37.8635	-4.3
Thailand	(Bt)	41.3335	-0.3162	850 - 820	41.8705	41.2680	41.4637	-3.8	41.8497	-5.0	43.4883	-5.2
UAE	(Dirham)	4.1271	-0.0154	260 - 282	4.3350	4.12680	4.1333	-1.8	4.1552	-2.7	4.2247	-2.4

Euro Locking Rates: Austrian Schilling 13.7603, Belgium/Luxembourg Franc 40.3399, Finnish Markka 5.94573, French Franc 6.55957, German Mark 1.95583, Irish Punt 0.787564, Italian Lira 1936.27, Netherlands Guilder 2.20371, Portuguese Escudo 200.482, Spanish Peseta 166.386. Bid/offer spreads in the Euro Spot table show only the last three decimal places. Bid, offer, mid spot rates and forward rates are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the FT

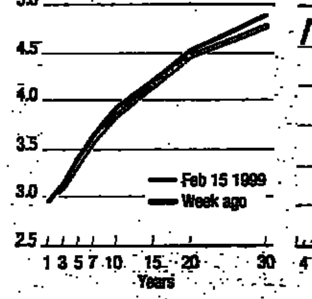
BONDS

INTEREST RATE SWAPS

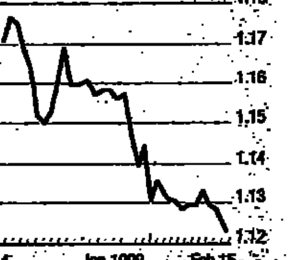
Feb 15	Euro-£ Bid	Euro-£ Ask	Euro-L Bid	Euro-L Ask	£ Stlg Bid	£ Stlg Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.10	3.13	3.10	3.13	5.23	5.26	5.25	5.28	0.37	0.40
2 year	3.14	3.18	3.14	3.18	5.09	5.12	5.38	5.41	0.58	0.59
3 year	3.29	3.33	3.29	3.33	5.10	5.14	5.46	5.49	0.86	0.89
4 year	3.46	3.50	3.46	3.50	5.11	5.15	5.52	5.55	1.18	1.21
5 year	3.62	3.66	3.62	3.66	5.11	5.15	5.59	5.62	1.48	1.51
6 year	3.77	3.81	3.77	3.81	5.13	5.17	5.64	5.67	1.73	1.76
7 year	3.91	3.95	3.91	3.95	5.14	5.18	5.68	5.71	1.96	1.99
8 year	4.04	4.08	4.04	4.08	5.15	5.19	5.72	5.75	2.12	2.15
9 year	4.15	4.19	4.15	4.19	5.16	5.20	5.76	5.79	2.26	2.29
10 year	4.24	4.28	4.24	4.28	5.17	5.21	5.79	5.82	2.38	2.41
12 year	4.40	4.44	4.40	4.44	5.18	5.23	5.85	5.88	2.58	2.63
15 year	4.60	4.64	4.60	4.64	5.20	5.25	5.96	5.99	2.80	2.85
20 year	4.81	4.85	4.81	4.85	5.21	5.27	6.06	6.09	2.99	3.04
25 year	4.93	4.97	4.93	4.97	5.21	5.28	6.06	6.09	3.09	3.14
30 year	5.00	5.04	5.00	5.04	5.20	5.28	6.06	6.09	3.14	3.20

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months Libor, £ and Yen quoted on a semi-annual actual/365 basis against 6 months Libor, Euro quoted on annual bond 30/360 basis against 6 month Euribor and Libor with the exception of the 1 year rate which is quoted against 3 months Euribor and Libor. Source: Intercapital Brokers Ltd.

Euro bond yield curve



Euro against the dollar



Source: Interactive Data/FT Information

EURO-ZONE BONDS

Feb 15	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ SOVEREIGNS								
UK	01/01	4.250	AAA	102.033	3.16	+0.03	+0.15	+0.14
Denmark	01/02	4.750	AA+	103.939	3.29	+0.05	+0.18	+0.15
Sweden	02/01	5.000	AA+	103.429	3.18	+0.03	+0.14	+0.16
Greece	11/06	6.750	BBB	114.632	4.47	+0.09	+0.21	+0.82
■ SUPRANATIONALS								
ADB	10/07	5.500	AAA	107.995	4.37	+0.08	+0.27	+0.82
EIB	04/08	5.000	AAA	106.720	4.10	+0.06	+0.32	+0.26
Eurofima	12/09	5.625	AAA	109.470	4.50	+0.08	+0.26	+0.58
World Bank	04/05	7.125	AAA	117.538	3.86	+0.09	+0.19	+0.81
■ UTILITIES								
EDF	10/03	3.750	n/a	100.979	3.52	+0.10	+0.15	+0.24
TEPCO	02/03	4.750	AA	103.291	3.85	+0.08	+0.20	+0.57
Quebec Hydro	03/08	5.375	A+	105.278	4.65	+0.08	+0.22	+0.81
Norsk Hydro	10/99	7.250	A	102.250	3.51	+0.00	+0.04	+0.58
■ FINANCIALS								
Bad Wurtt	02/10	5.375	AAA	108.203	4.41	+0.06	+0.17	+0.43
OKB	09/07	5.750	AAA	111.254	4.16	+0.09	+0.20	+0.41
Credit Local	04/06	5.250	AA+	106.023	4.44	+0.10	+0.28	+0.80
Abbey Natl	01/09	5.000	AA-	102.047	4.73	+0.06	+0.21	+0.87
■ INDUSTRIALS								
Unilever	10/01	5.125	AAA	104.201	3.43	+0.04	+0.14	+0.41
McDonalds	09/08	5.125	AA	105.400	4.39	+0.06	+0.60	+0.65
Philip Morris	06/08	5.625	A	105.362	4.89	+0.08	+0.20	+1.05
BAT Int Fin	07/06	5.375	A-	102.815	4.91	+0.09	+0.09	+1.28
■ PFANDBRIEFE								
Rhein Hypo	12/01	5.500	n/a	105.887	3.28	+0.05	+0.02	+0.26
Eurohypo AG	01/04	5.000	n/a	106.269	3.58	+0.08	+0.07	+0.16
Bayer Vereins	01/06	6.000	n/a	112.577	3.89	+0.11	+0.13	+0.24
Depfa	07/08	4.750	n/a	104.160	4.20	+0.12	+0.15	+0.36
■ HIGH YIELD								
Geberit	04/07	10.125	B+	108.275	8.50	+0.18	+0.42	+4.75
Colt Telecom	11/07	8.875	n/a	106.724	7.80	-0.10	-0.77	+4.05
Impress Metal	05/07	9.875	B	102.146	9.49	-0.01	+1.68	+5.74
Remy Cointreau	07/05	10.000	B+	96.000	10.89	-0.37	-1.13	+7.33

Standard & Poor's ratings. Source: Interactive Data/FT Information.

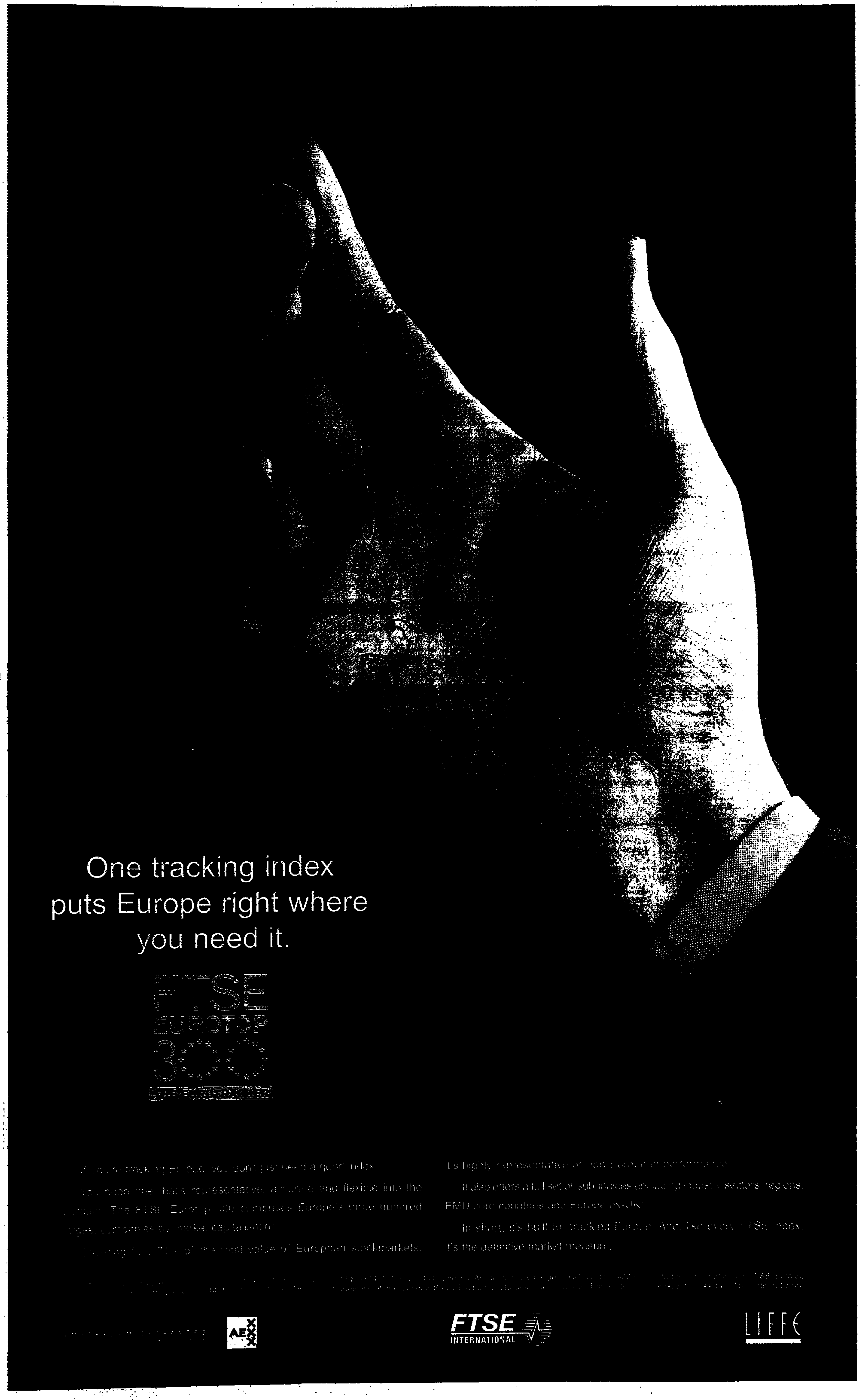
FTSE EUROTOP 300

Name	Price (Euro)	Chge + or -	Mkt cap Euro(bn)	Vol (m)	Yld
AEROSPACE & DEFENCE					
Brit Aero	6.20	+1	5.4	5.7	1.5
Smiths Ind	13.89	+4	4.3	0.6	2.6
Thomson CSF	31.80	-1	5.4	0.1	1.7
DIVERSIFIED INDUSTRIALS					
Investor A	37.57	+2	2.9	-	3.8
Investor B	38.48	+4	4.3	0.1	2.9
Mannesmann	0.90	-	4.6	28.1	2.2
BWE	38.45	+1.0	20.4	0.1	2.3
HOUSEHOLD & TEXTILES					
Adidas Salom	87.88	-2	3.9	-	1.9
Christian Dr	112.80	+2.5	5.1	0.1	2.2
Electrolux B	15.85	+3	5.6	0.3	1.8
LVMH	213.90	+7.5	18.8	0.1	1.8
Sanofi	149.30	-7	16.1	0.2	0.7
Schering	117.30	-1.7	8.8	-	1.1
SmKl Bchm	12.51	+4	70.0	5.6	1.4
Synthelabo	192.10	-7.8	9.3	-	0.5
Zeneca	37.05	-2	35.2	1.5	1.8

AUTOMOBILES · BANKS · BEVERAGES · CHEMICALS · CONSTRUCTION & BUILDING · DISTRIBUTORS · ELECTRICITY · ELECTRONIC & ELECTRICAL EQUIPT · ENGINEERING & MACHINERY · FOOD & DRUG RETAILERS · FOOD PRODUCERS & PROCESSORS · FORESTRY & PAPER · GAS DISTRIBUTION · GENERAL RETAILERS · HEALTH · IT HARDWARE · INSURANCE · INVESTMENT COMPANIES · LEISURE ENTERTAINMENT & HOTELS · LIFE ASSURANCE · MEDIA & PHOTOGRAPHY · MINING · OIL & GAS · PACKAGING · PERSONAL & HOUSEHOLD PRODUCTS · PHARMACEUTICALS · REAL ESTATE · RESTAURANTS PUBS & BREWERIES · SOFTWARE & COMPUTER SERVICES · SPECIALITY & OTHER FINANCE · SUPPORT SERVICES · TELECOMMUNICATION SERVICES · TOBACCO · TRANSPORT · WATER

Notes

Price data and market capitalisations supplied by FTSE International. Market capitalisation figures are based on shares used in index calculations. Shares are not counted where foreign ownership restrictions apply. Market caps may include securities not eligible as constituents. Stocks in bold type are domiciled in Euro countries. Trading Volumes and yields derived from local domestic markets and supplied by Financial Times Information. Company classifications are based on those used for the FTSE Eurotop share indices.


One tracking index
puts Europe right where
you need it.
FTSE
EUROTOP
300
THE EUROTRACKER
If you're tracking Europe, you don't just need a good index.
it's highly representative of pan-European performance.
EMU core countries and Europe ex-UK.
it's the definitive market measure.
AEX
FTSE
INTERNATIONAL
LIFFE

Attractive euro swaps elude bankers

By Edward Luce, Capital Markets Editor

Bankers have been scratching their heads for weeks to explain the lack of decent arbitrage opportunities in the euro-denominated markets.

In spite of the fact that bond issuance in euros comfortably outstripped issuance in dollars in the first month of the single currency's existence, the euro is still unable to offer an attractive swaps market.

The absence of arbitrage is a feature both of swapping from fixed into floating-rate euros and also from euros into other currencies altogether, notably the US dollar.

Poor conditions in both sectors has stopped the large dollar funding institutions, such as the World Bank and the Fannie Mae, from tapping the single currency.

This is in direct contrast, for example, to conditions in the sterling-denominated market, where swaps have been tempting enough in the past few months to entice most of the world's largest borrowers.

"The lack of spreads in the euro-swaps market is a genuine mystery to most of us," said the head of swaps at a US investment bank in London.

Some bankers, however, were brave enough to suggest possible reasons for the disparity between the two markets.

The spread for swapping 10-year bonds into floating-rate money in euros is about 33 basis points compared with about 75 basis points in dollars. This gives the dollar a 40 basis point advantage over the euro for borrowers seeking floating-rate money.

This disparity enables the borrower to offer investors a higher "optical" spread over the benchmark, in spite of the fact that the borrower's ultimate costs – once the proceeds have been swapped into floating-rate money – will be comfortably below Libor.

One reason is that absolute bond yields in the US are much higher than in the euro-zone, which means absolute swap spreads will also be higher. As a proportion of the absolute yield, the difference is therefore less dramatic. "If yields in Europe rise then the swap spread will also rise," said one banker.

In the currency market the explanation is more obvious. In the first half of 1998 the markets charged nothing to swap floating-rate D-Marks into floating-rate dollars. After the Russia crisis the charge rose from zero to about 4.5 basis points. This reflected the excess of demand for dollars over D-Marks (and now euros).

The anomaly has been compounded by the fact that those European borrowers that would normally borrow in dollars, have instead chosen to make a splash in the euro since it was launched. There is thus a very strong mismatch between those wanting to swap euros into dollars and those wanting to swap dollars into euros.

"It is a one-way market right now," said one trader. "As demand to swap dollars into euros increases, the cost of swapping euros into dollars will decrease."

Rate cut hits JGB prices

BENCHMARK BONDS

By Florian Gimbel

Japanese government bonds lost ground following the disappointing rate cut by the Bank of Japan last Friday. Pressure from LDP politicians on the bank to intervene directly in the market fanned volatility, leaving JGB yields marginally higher at the end of the day.

With the US market closed for Presidents' Day, European bond markets had a soft start to the week, taking their cues from Japan.

The 10-year benchmark German bund future closed 0.54 lower at 115.19, with the equivalent UK gilt future ending at 116.98, down from 117.25.

"The BoJ's easing of the call rate target to 0.15 per cent last Friday looks suspiciously like the last gasps of a dying man. It is clear that if rates at 0.25 per cent aren't working then neither will they at 0.15 per cent. The problem in Japan has not been the price of money, but rather the inadequate monetary demand," said Ian Douglas at Warburg.

Sally Wilkinson, senior economist at Daiwa Europe, thought the BoJ had two alternative routes. "On Friday, the BoJ chose to support banks and corporations directly by increasing its repo rate, by stepping up the purchase of corporate paper and by lowering the emergency rate to corporations to 0.25 per cent [from 0.5 per cent previously]," Ms Wilkinson said.

This policy option, however, came at a price. "It will expand the BoJ's balance sheet and will deteriorate its quality – unlike the second possible option [increasing the market purchases of JGBs] which on the surface improves the BoJ's balance sheet."

US fears of repatriation of Japanese funds, owing to rising JGB yields, may have been misplaced. The latest portfolio flow numbers for January, published by the Japanese Ministry of Finance, showed – for the first time in 10 months – net sales of foreign bonds totalling Y676bn, compared with Y1,590bn of net purchases in December.

However, for the period from April 1998 to the end of January 1999, Japanese investments in overseas bond markets have remained at staggering heights, totalling Y11,000bn.

"Traditionally, Japanese banks have locked in profits on foreign bond holdings to prop up their balance sheets and meet capital adequacy requirements ahead of the fiscal year end. But this year, the government came up with an Y8bn package to shore up the financial sector, which has crucially reduced the need for Japanese banks to repatriate their funds," said Ms Wilkinson.

She conceded that Japanese life insurance companies have liquidated Treasury holdings in the recent past to reap the short-term benefits of rising JGB yields. "But these operations were voluntary moves – not the result of fiscal pressure," Ms Wilkinson said.

However, in spite of its current weakness, the Japanese bond market was not expected to fall off the cliff, said one analyst.

"There are huge accumulated assets that still serve as a strong underpinning to the bond market," the analyst said.

US money manager raises $634m

NEW ISSUES

By Arkady Ostrovsky

PPM America, a US money manager specialising in high-yield securities, yesterday issued an asset-backed deal in spite of the public holiday in the US and the start of the Lunar New Year celebrations.

The $653.4m issue was securitised against a portfolio of assets split between high-yield securities (95 per cent) and mortgage-based securities (5 per cent).

Banca Popolare di Brescia, one of Italy's largest co-operative banks, launched a €150m bond, its debut in the currency. The bank, based in one of Italy's wealthiest regions, is rated Baa1 by Moody's, the rating agency.

The bond was priced to yield 22 basis points over Euribor.

Anthony Barklam, at Morgan Stanley, said demand for corporate bonds continued to outstrip supply, as investors looked for higher yields in a low yield environment.

Dexia Hypothekenbank, the German mortgage bank, increased its benchmark pfandbrief offering by €488m to €1bn, yesterday. The transaction confirms signs of growing liquidity in the largest category of non-government bond in the euro-zone and demonstrated growing international demand for pfandbriefe. The pfandbrief market is estimated to total about $1,000bn.

Elsewhere, Fingrid Oyj, the Finnish power utility, made its debut in euros with a €100m four-year offering. Bankers said the bond, priced at 26 basis points over the bund curve, was designed to help satisfy demand for shorter-dated paper in the single currency.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
PPM America Class A1(a)†*	448	(a1)†	100.00	Jun 2011	zero	-	CSFB
Kommunkredit‡	75	(b)	100.25	Feb 2009	0.25	-	Merrill Lynch
EUROS							
Dexia Hypothekenbank	488(c)	3.00	99.83R	Nov 2000	0.04R	-	Deutsche Bank
Banco Popolari di Brescia‡	150	(d)	99.949R	Feb 2002	0.15R	-	MSDW
Caja Madrid	80	3.25(f)	100.00	Feb 2008	0.525	-	Caja Madrid
BCP Finance Bank‡	100	(g)	99.952R	Feb 2002	0.125R	-	Warburg Dillon Read
STERLING							
Hyder	60(h)	7.00	102.307	Apr 2020	0.625	+210(6% 21)	Dresdner KwP Morgan

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Also issued: Class A2, $22m, Class A3, $56m, Class B, $73m, Class C, $54m. a1) 6-mth Libor + 85bp. Callable at par on every interest date. b) 3-mth Libor flat. c) Fungible with €502m. Plus 93 days accrued interest. d) 3-mth Euribor + 20bp. f) Option available to switch to bond issued or guaranteed by Caja Madrid, with coupon of 6.7% or cash in bond for 100% of face value plus premium based on 10yr interest rate swap, at maturity. g) 3-mth Euribor +16bp. €300m bond launched 8/2/99 increased to €300m. h) £140m bond launched 4/12/98 increased to £200m.

NEWS DIGEST

GREEK EQUITIES

Stockbrokers press for longer trading sessions

Greece's stockbrokers are pressing for longer trading hours to cope with a surge in volume since January, as retail investors pour funds into the market. Smeha, the Athens brokers' association, has called for a four-hour extension, which it says would ease the trading log-jam and allow an overlap with west European markets, as well as one hour of parallel trading with New York.

With a single three-hour daily trading session, the Athens stock exchange lags behind similar-sized markets such as Portugal and Turkey. Brokers complain the electronic trading system is overwhelmed with retail orders by mid-session. Growing optimism that Greece will achieve its aim of joining the euro in 2001 has pushed share prices to record levels. Average daily volumes have jumped from $230m to $540m since the start of the year.

Brokers say almost 100,000 retail investors have joined the market since Greek banks cut deposit rates last December. "Transaction volume would soar, but so would volatility," said George Athanassakis of NBG Equities, a London-based Greek brokerage. "An extension needs to be timed carefully, or the market risks losing credibility."

Bourse authorities are wary of adopting Smeha's proposal because of technical difficulties over settlement and custody. The Athens clearing system is already overburdened by a sharp increase in small transactions. Dematerialisation of shares is expected to take place in April, after the electronic trading system has been upgraded to handle heavier share volumes. The stock exchange is also gearing up to launch a derivatives market by June.

"We're in favour of longer trading hours," said Stavros Thomadakis, head of the Capital Markets Commission, "but the bourse has much to digest in the next few months, and the new systems should be running smoothly before another big change takes place."

Kerin Hope, Athens

GRIFFIN TRADING COLLAPSE

Liffe locals could recover 80%

Independent traders on the London International Financial Futures and Options Exchange could receive up to 80 per cent of their frozen assets, the liquidator of the collapsed Griffin Trading Company said yesterday.

Locals were originally expected to recover only 50 per cent of their money, but Finbarr O'Connell and Mike Jervis, partners at Grant Thornton, the accounting firm appointed to wind up the London branch of Griffin, said under US law Griffin's clients could have priority over all other creditors.

Griffin was shut down by UK regulators before Christmas after John Park, an independent trader who used the firm to clear his trades, incurred losses of £6.2m investing in futures contracts on German government bonds.

Arkady Ostrovsky

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Feb 15	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	108.7859	4.95	+0.06	+0.10	+0.20	-0.15
	08/08	8.750	124.4567	5.42	+0.12	+0.15	+0.31	-0.37
Austria	07/00	5.875	103.7300	3.11	+0.06	+0.05	+0.07	-0.85
	01/08	5.000	106.8800	4.06	+0.07	+0.05	+0.18	-1.00
Belgium	01/00	4.000	100.9300	2.95	-0.06	-0.10	-	-1.86
	03/08	5.750	112.3100	4.10	+0.06	+0.06	+0.15	-0.94
Canada	12/00	5.000	100.0000	5.00	+0.03	+0.10	+0.28	-0.05
	06/08	6.000	106.2000	5.15	-	+0.08	+0.20	-0.27
Denmark	11/00	9.000	109.0200	3.52	-0.03	-	-0.02	-0.63
	11/07	7.000	119.8200	4.23	+0.07	+0.08	+0.18	-1.07
Finland	06/00	4.000	101.2700	3.00	+0.01	-0.01	+0.05	-0.89
	04/08	6.000	114.2850	4.10	+0.08	+0.08	+0.20	-0.82
France	07/00	4.000	101.2600	3.05	+0.04	+0.03	+0.10	-0.91
	10/05	7.750	124.0700	3.62	+0.09	+0.07	+0.17	-1.08
	10/08	8.500	135.7400	3.97	+0.07	+0.07	+0.21	-1.04
	04/29	5.500	109.6500	4.88	+0.11	+0.10	+0.20	-0.68
Germany	06/00	4.000	101.2000	3.05	+0.07	+0.06	+0.14	-0.79
	10/05	6.500	116.1700	3.71	+0.07	+0.06	+0.17	-1.03
	07/08	4.750	108.2400	3.94	+0.08	+0.08	+0.21	-1.03
	01/28	5.625	111.3800	4.88	+0.11	+0.09	+0.20	-0.67
Greece	03/00	9.800	100.4500	9.31	+0.15	-0.55	-0.80	-5.79
	03/08	8.600	117.4657	6.07	+0.03	-0.09	-0.44	-4.87
Ireland	10/01	6.500	108.4000	3.16	+0.03	+0.01	+0.08	-1.67
	08/08	6.000	114.7500	4.09	+0.06	+0.06	+0.16	-1.14
Italy	04/01	4.500	102.7700	3.14	+0.07	+0.05	+0.08	-1.60
	07/03	4.500	104.0900	3.49	+0.09	+0.07	+0.15	-1.42
	05/08	5.000	106.7000	4.12	+0.11	+0.09	+0.19	-1.18
	11/27	6.500	121.8300	5.05	+0.13	+0.12	+0.18	-0.78
Japan	12/00	6.900	111.8430	0.48	-0.10	-0.13	-0.08	-0.27
	12/03	4.100	112.8230	1.39	-	-0.07	+0.22	+0.04
	06/08	1.800	97.3400	2.12	+0.06	-0.02	+0.45	+0.35
	03/18	2.700	95.8820	2.98	+0.07	+0.01	+0.48	+0.40
Netherlands	05/00	9.000	107.1300	2.99	-0.03	-0.02	+0.03	-0.94
	07/08	5.250	109.6100	4.00	+0.07	+0.05	+0.18	-0.91
New Zealand	02/01	8.000	105.5110	5.01	+0.06	-0.05	-0.19	-2.40
	07/09	7.000	110.2582	5.68	+0.12	-	+0.15	-1.08
Norway	05/01	7.000	104.6700	4.76	-	-0.05	-0.67	+0.59
	01/07	6.750	113.0000	4.74	+0.09	+0.01	-0.32	-0.47
Portugal	03/00	5.375	102.3400	3.14	+0.05	+0.06	+0.08	-1.03
	06/08	5.375	109.8300	4.08	+0.06	+0.06	+0.13	-1.12
Spain	04/00	8.750	104.0800	3.05	+0.10	+0.06	+0.10	-1.27
	01/08	6.000	114.1100	4.06	+0.08	+0.06	+0.17	-1.11
Sweden	05/00	10.250	108.0828	3.27	-	-0.05	-0.05	-1.43
	05/08	6.500	117.0080	4.23	+0.08	+0.06	+0.25	-1.28
Switzerland	08/00	4.500	103.9500	1.41	-	-0.01	+0.07	+0.07
	01/08	4.250	114.7700	2.38	+0.02	+0.01	+0.10	-0.32
UK	11/01	7.000	105.7300	4.72	+0.04	+0.09	+0.16	-1.86
	12/03	6.500	108.4500	4.52	+0.08	+0.17	+0.27	-1.51
	10/08	9.000	134.6900	4.52	+0.03	+0.14	+0.23	-1.43
	12/28	6.000	125.7200	4.44	+0.06	+0.12	+0.14	-1.48
US	08/00	4.500	97.2813	4.97	-	+0.13	+0.36	-0.41
	08/03	5.750	100.7188	5.07	-	+0.17	+0.45	-0.45
	05/08	5.625	103.1875	5.18	-0.01	+0.15	+0.41	-0.38
	05/28	5.500	98.4063	5.61	-	+0.15	+0.41	-0.28

London closing. * New York closing. Source: Interactive Data/FT Information

Yields: Local market standard Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Feb 15	Bid Yield	Spread vs Euros	Spread vs T-Bonds
Australia	5.43	+1.51	+0.37
Austria	4.19	+0.27	-0.87
Belgium	4.09	+0.17	-0.97
Canada	5.15	+1.23	+0.09
Denmark	4.25	+0.33	-0.81
Finland	4.13	+0.21	-0.93
France	3.99	+0.07	-1.07
Germany	3.92	-	-1.14
Greece	5.99	+2.07	+0.93
Ireland	4.14	+0.22	-0.92
Italy	4.12	+0.20	-0.94
Japan	2.14	-1.78	-2.92
Netherlands	4.04	+0.12	-1.02
New Zealand	5.69	+1.77	+0.63
Norway	4.76	+0.84	-0.30
Portugal	4.16	+0.24	-0.90
Spain	4.20	+0.28	-0.86
Sweden	4.25	+0.33	-0.81
Switzerland	2.50	-1.42	-2.56
UK	4.49	+0.57	-0.57
US	5.06	+1.14	-

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Feb 15	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	94.5750	9.09	-0.17	-0.67	+4.16
Poland	07/04	7.125	BBB-	105.9202	5.80	-0.02	-0.15	+0.84
Russia	06/07	10.000	n/a	29.0500	39.33	-0.11	-6.77	+34.31
LATIN AMERICA								
Argentina	09/27	9.750	BB	84.5210	11.61	+0.01	-0.48	+6.22
Brazil	05/27	10.125	B+	66.6855	15.29	-0.08	-1.14	+9.90
Mexico	05/26	11.500	BB	105.2450	10.89	+0.09	-0.55	+5.52
ASIA								
China	07/06	7.750	BBB+	100.8125	7.59	-0.13	+0.34	+2.59
Philippines	10/16	8.750	BB+	92.7620	9.61	+0.21	-0.51	+4.42
Thailand	04/07	7.750	BBB-	99.3304	7.86	-0.08	+0.20	+2.84
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	103.8750	6.19	+0.19	+0.62	+1.30
South Africa	10/06	8.375	BB+	93.7273	9.55	+0.37	-0.32	+4.55
Turkey	05/07	10.000	B	89.8540	12.13	+0.01	+0.26	+7.11
BRADY BONDS								
Argentina	03/23	5.750	BB	70.1250	9.07	-0.03	-0.52	+3.75
Brazil	04/14	5.000	B+	57.8750	14.39	+0.03	-0.69	+9.24
Mexico	12/19	6.250	BB	77.2500	8.82	+0.14	-0.47	+3.38
Venezuela	03/20	6.750	B+	65.1250	10.87	+0.37	-0.39	+5.61

US close day. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information

BOND FUTURES AND OPTIONS

France

■ NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	111.40	111.04	-0.65	111.48	110.87	36,036	92,200

■ LONG TERM EURO BOND OPTIONS (MATIF)

Strike Price	CALLS Feb	CALLS Mar	CALLS -	PUTS Feb	PUTS Mar	PUTS -
110	1.16	-	-	0.12	-	-
111	0.78	-	-	0.24	-	-
112	0.48	-	-	0.44	-	-
113	0.26	-	-	0.72	-	-

Est. vol. total, Calls 2,152 Puts - . Previous day's open int., Calls 11,245 Puts 10,503 .

Germany

■ NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	115.60	115.19	-0.55	115.71	115.16	400,368	501,680

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	108.95	108.95	-0.21	109.04	108.81	89,640	191,152

■ NOTIONAL LFB SWAP FUTURES (LIFFE)* 5yr 4.0% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	101.72	101.58	-0.28	101.72	101.72	200	1040

■ NOTIONAL LFB SWAP FUTURES (LIFFE)* 10yr 4.5% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	102.10	101.82	-0.74	102.10	102.10	100	990

Also traded on APT. All Open interest figs. are for previous day.

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	113.85	113.33	-0.71	113.85	113.14	13086	42650

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	116.90	116.42	-0.63	116.90	116.27	18,369	22,924
Jun	-	117.52	-	-	-	-	-

UK

■ NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		108.50	-0.19			0	63
Jun		108.29	-0.19			0	0

■ NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	117.00	116.98	-0.27	117.20	116.70	33309	96796
Jun	117.94	117.92	-0.25	117.94	117.77	991	3816

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

■ LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	CALLS Mar	CALLS Jun	PUTS Mar	PUTS Jun
11600	1.11	2.69	0.13	0.77
11650	0.73	2.36	0.25	0.94
11700	0.45	2.05	0.47	1.13
11750	0.23	1.77	0.75	1.36
11800	0.11	1.52	1.13	1.60
11850	0.08	1.29	1.60	1.87

Est. vol. total, Calls 1325 Puts 1018. Previous day's open int., Calls 10218 Puts 8987

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	124-23	122-21	-2-02	124-24	122-13	338,631	608,850
Jun	124-15	122-07	-2-02	124-15	122-19	23,254	203,728
Sep	-	121-25	-2-02	-	-	859	6,353

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	128.70	129.00		129.05	128.65	1753	n/a
Jun	127.70	127.84		127.70	127.59	400	n/a

Euro

■ € BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	110.10	109.07	-1.73	110.10	109.60	11	131

US CORPORATE BONDS

Feb 15	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	105.2988	5.50	+0.09	+0.21	+5.50
NY Tel	08/25	7.00	A+	99.4017	7.05	+0.10	+0.23	+1.55
CWE	05/08	8.00	BBB	113.3633	6.06	+0.13	+0.17	+1.00
FINANCIALS								
GECC	05/07	8.75	AAA	118.2552	5.92	+0.17	+0.33	+0.84
Banc One	08/02	7.25	A	104.7127	5.72	+0.12	+0.14	+5.72
CNA Fin	01/18	6.95	A-	97.6589	7.17	+0.16	+0.83	+1.67
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.0313	5.84	-0.02	-	+1.38
Wal Mart	05/02	6.75	AA	104.6747	5.16	+0.12	+0.20	+5.16
Dayton Hud	06/21	9.70	A-	133.8002	6.74	+0.16	+0.19	+1.24
AGENCIES								
FHLMC	04/07	7.14	N/A	109.5192	5.66	+0.16	+0.31	+0.58
SLMA	03/00	7.50	N/A	102.3708	5.17	+0.04	+0.14	+0.66
FNMA	02/18	8.95	N/A	132.6657	6.03	+0.16	+0.33	+0.53
FFCB	06/06	8.95	N/A	119.7112	5.61	+0.16	+0.28	+0.53
HIGH-YIELD								
Stone Cont	02/01	9.88	B	101.7500	0.00	-	-	-
AK Stl	12/01	9.13	BB-	105.7500	0.00	-	-	-
Pacalta	06/04	10.75	B-	76.5000	0.00	-	-	-

NY latest. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Close (12/2) — Treasury Bills and Bond Yields

Prime rate	7¾	One month	-	Two year	4.81
Broker loan rate	6½	Two month	-	Three year	4.82
Fed.funds	4⅝	Three month	4.65	Five year	4.96
Fed.funds at intervention	4⅝	Six month	4.68	10-year	5.06
		One year	4.74	30-year	5.43

INTERNATIONAL BONDS

Feb 15	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
[illegible]								
EIB	04/07	7.250	AAA	109.8164	5.71	+0.10	+0.35	+0.69
ABN Amro	06/07	7.125	AA-	104.9799	6.33	+0.06	+0.03	+1.31
Quebec	01/07	7.000	A+	105.5532	6.09	+0.07	+0.25	+1.07
Citicorp FRN	02/04	5.312	AA-	98.0589	5.76	+0.07	-0.72	+0.80
[illegible]								
Bayer L-Bk	08/04	8.500	AAA	117.9224	5.60	+0.05	+0.25	+0.19
Toronto (M of)	05/04	8.500	AA+	113.3208	5.51	+0.05	+0.08	+0.10
Bell Canada	07/99	10.625	A+	101.9346	5.44	+0.05	+0.28	+1.27
Deutsche B FRN	09/02	5.875	AA+	100.7484	5.64	+0.05	+0.19	+0.34
[illegible]								
EIB	12/07	7.625	AAA	117.7500	5.07	-0.01	-0.01	+0.43
Dresdner Bk	12/07	7.750	AA-	112.4629	5.89	+0.03	+0.06	+1.25
British Gas	03/00	7.625	A+	102.1670	5.55	+0.01	+0.01	+0.63
Abbey Nat FRN	02/02	7.136	AA	99.9480	4.25	+0.02	-0.04	-0.45
SFR								
EIB	01/08	3.750	AAA	102.9206	3.37	+0.03	+0.09	+0.97
Brit Columbia	02/02	3.250	AA	103.8204	1.93	+0.01	+0.04	+0.29
Hydro-Quebec	05/01	6.750	n/a	109.0468	2.57	+0.01	+0.07	+1.07
Gen Elect	09/01	1.711	n/a	99.8474	1.52	+0.01	+0.05	+0.02
YEN								
IBRD (World Bk)	03/02	5.250	AAA	113.8877	0.75	-0.05	+0.15	-0.14
Spain (Kingdom)	03/02	5.750	AA	114.7799	0.89	-0.03	+0.22	-
Cred Foncier	08/02	4.750	A	111.4598	1.35	-0.05	+0.12	+0.46
Italy (Rep of)	07/99	0.516	AA	100.0718	0.24	-0.06	-0.08	+0.02
A$								
IBRD (World Bk)	02/08	6.000	AAA	101.2258	5.82	+0.12	+0.33	+0.41
Nw Sth Wales Tr	05/08	6.500	n/a	103.8734	5.83	+0.12	+0.27	+0.52
S. Aus Gov Fin	06/03	7.750	AA	107.1851	5.83	+0.08	+0.22	+0.74
GMAC Aust	05/01	9.000	n/a	106.7558	5.71	+0.07	+0.17	+0.74

London closing. Source: Interactive Data/FT Information

Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Government Securities — UK Indices

Price Indices UK Gilts	Mon Feb 15	Day's chge %	Accrued interest	xd adj ytd	Total Return	Duration Years	Duration Yield	% Weight
1 Up to 5 years (16)	122.25	-0.12	2.56	0.64	1203.52	2.34	4.70	34.28
2 5-10 years (11)	171.00	-0.21	2.60	0.68	1330.20	5.83	4.61	29.29
3 10-15 years (7)	184.74	-0.35	1.90	1.34	1447.13	8.67	4.59	13.44
4 5-15 years (18)	174.99	-0.25	2.39	0.87	1363.68	6.76	4.60	42.73
5 Over 15 years (4)	230.76	-0.61	3.14	0.00	1588.78	11.65	4.58	22.22
6 Irredeemables (4)	319.65	-0.99	2.99	1.07	1861.14	22.57	4.71	0.77
7 All stocks (42)	166.27	-0.29	2.68	0.66	1349.91	6.83	4.61	100.00

Index-linked	Mon Feb 15	Day's chge %	Accrued interest	xd adj ytd	Total Return	% Weight
1 Up to 5 years (2)	225.73	-0.12	1.78	0.00	1172.21	15.11
2 Over 5 years (9)	256.67	-0.21	0.72	2.15	1394.25	84.89
3 5-15 years (5)	240.30	-0.18	0.52	2.03	1300.88	42.79
4 Over 15 years (4)	271.63	-0.23	0.94	2.29	1479.63	42.10
5 All stocks (11)	250.91	-0.19	0.90	1.79	1363.16	100.00

Yield indices	Feb 15	Feb 12	Yr ago	Yield indices	Feb 15	Feb 12	Yr ago
5 yrs	4.63	4.58	6.16	Irred †	4.71	4.66	6.08
10 yrs	4.59	4.55	5.98	Med. 15 yrs	4.61	4.57	5.96
15 yrs	4.60	4.55	5.96	High 15 yrs	4.71	4.66	6.08
20 yrs	4.60	4.55	5.95				

Coupon Bands: Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

Real yield	Inflation 0% Feb 15	Inflation 0% Dur yrs	Inflation 0% Feb 12	Inflation 0% Yr ago	Inflation 5% Feb 15	Inflation 5% Dur yrs	Inflation 5% Feb 12	Inflation 5% Yr ago
Up to 5 yrs	3.16	3.30	3.12	3.45	2.42	3.32	2.37	2.60
Over 5 yrs	2.15	13.19	2.13	3.16	1.96	13.28	1.95	2.93
5-15 yrs	2.21	9.80	2.19	3.23	1.95	9.85	1.93	2.88
Over 15 yrs	2.11	16.81	2.10	3.13	1.97	16.90	1.95	2.95
All Stocks	2.19	11.61	2.18	3.17	1.98	11.73	1.96	2.92

FT Fixed Interest Indices

	Feb 15	Feb 12	Feb 11	Feb 10	Feb 9	Yr ago	High*	Low*
Govt. Secs. (UK)	114.19	114.61	115.83	115.74	115.56	103.97	117.17	93.31
Fixed Interest	156.94	157.58	158.60	158.69	157.98	139.5	158.45	115.32

 * for 1998/99. Government Securities high since compilation: 127.40 (1/8/35), low 49.18 (1/3/75). Fixed Interest high since compilation: 158.45 (22/01/99), low 50.33 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts" (Lives up to Five Years)							
Treas 9½pc 1999		9.50	5.51	100.0000	—	102.19	100.00
Conv 9½pc 2005		7.57	4.68	125.5911	-.2701	128.15	117.84
[illegible]							

Other Fixed Interest

[illegible]

CURRENCIES & MONEY

Dollar rises higher in holiday trading

MARKETS REPORT

By Melanie Carroll and Alan Beattie

The dollar took advantage of the holiday atmosphere in markets in the United States and Asia yesterday, rising against the yen in thin trade.

The dollar broke through the Y115.5 level in the middle of the London session, remaining at that level at the close of trade.

Some analysts said the jump was led by American corporates pushing the dollar through the Y114.5, Y115 and Y115.5 resistance points. Traders expect Japanese firms to sell today if the dollar remains strong.

Meanwhile, Derek Halpenny, currency analyst at Bank of Tokyo-Mitsubishi, said investors are still digesting the news of the Bank of Japan's interest rate cut on Friday.

"The general feeling is the BoJ move on Friday was a temporary solution, and the deliberation on JGB purchases will come up again," he said.

The central bank's decision to cut interest rates by 10 basis points, and not commit to buying government bonds, has been interpreted as either giving in to political pressure or asserting its independence.

■ The Czech koruna fell again yesterday but some analysts suggest it has bottomed out on its slide this year.

Political instability and a series of interest rate cuts have pinned down the Czech currency. Yesterday it reached Kč33.9730 against the dollar at the end of trading in London.

Some investors have pulled out of the koruna since January 28 when the central bank made the latest of nine interest rate cuts.

In Poland, the zloty sank again despite the government's announcement that it would not cut interest rates.

Analysts said foreign investors were stepping in to buy the zloty at the new lower level, about 2 per cent above the mid-point of its currency band.

■ *The threat of industrial unrest in Germany,* and heightened pressure on the European Central Bank to cut interest rates, gave euro bears an excuse to sell the currency yesterday.

IG Metall, the German engineering union, set a deadline of Wednesday to agree on a new pay deal. Otherwise they would resort to strike action, they said.

Meanwhile it was announced that Oskar Lafontaine, the German finance minister, is to attend the European Central Bank council meeting this Thursday. Technically he will be present in his capacity as president of the European Union. But he is widely expected to tell the ECB that failure to loosen monetary policy to create employment will necessitate fiscal stimuli from euro-zone governments.

The euro bounced along its record lows just above $1.12 against the dollar. At the close of dealing hours in London it was trading at $1.124 against the dollar, down from $1.128 at the end of last week.

Market analysts said that the IG Metall and Lafontaine news did not dramatically change the prospects for the currency. But they did help to cement a growing perception that some of the enthusiasm around the time of the euro's launch was a little overdone.

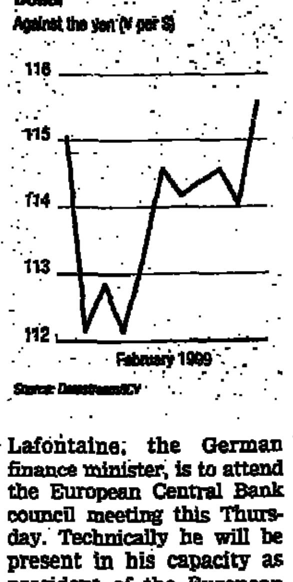
"The stream of good news on the economy from the US, and the weakness in the euro-zone, have changed the relative interest rate profile for the two currencies," said Alison Cottrell, chief international economist at Paine Webber in London. "So the market, having positioned for a strong start to the euro, now has a long way to come back."

Ms Cottrell said that events like the IG Metall dispute and pressure from Lafontaine, rather than being fundamental causes of euro weakness, were excuses for investors to sell the currency.

But she said the ECB was now sitting in quite a fortunate position even without cutting interest rates. "Despite what many say about the euro-zone now being a closed economy, companies still believe they are affected by the strength of the currency," she said. "So the ECB can sit there and try to make sense of the data while corporates react positively to the weakening euro."

Dollar

Against the yen (Y per $)



Source: Datastream/ICV

■ POUND IN NEW YORK

Feb 11	—Close—	— Prev. close —
£ spot	1.6326	1.6230
1 mth	1.6317	1.6223
3 mth	1.6311	1.6215
1 yr	1.6316	1.6220

■ OTHER CURRENCIES

Feb 15	£	$
Czech Rp	55.3314 - 55.3857	33.9730 - 34.0040
Hungary	381.694 - 382.115	232.120 - 232.320
Iran	4888.40 - 4894.36	3000.00 - 3000.00
Kuwait	0.4922 - 0.4935	0.3029 - 0.3030
Poland	5.9144 - 5.9218	3.3970 - 3.3980
Russia	[illegible]	[illegible]
UAE	5.9[illegible]	3.6727 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

... only the last three decimal places. UK, Ireland & Euro are quoted in US currency. J.P. Morgan nominal indices Feb 11. Base average ... and rates in both this and the Dollar table are derived from THE WM/REUTERS 4pm CLOSING SPOT and FORWARD RATE services. Some of the exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

Feb 15	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Euro-zone	3¼	3¼	3¼	3	3½	–	3.00	3.00
Switzerland	1⅞	1¼	1¼	1¼	1¾	–	1.00	–
US	4⅞	4⅞	4½	5	5	–	4.50	–
Japan	¼	[illegible]	[illegible]	[illegible]	¼	–	0.50	–
■ $ LIBOR BBA London								
Interbank Fixing	–	4⅞	5	5¼	5½	–	–	–
US Dollar CDs	–	4.75	4.79	4.81	4.90	–	–	–
Euro Linked Ds	–	3¼	3⅛	3¼	3¼	–	–	–
SDR Linked Ds	–	3⅞	3¼	3¼	3¼	–	–	–
BBA Euro Libor	–	3¼	3¼	3¼	3¼	–	–	–
Euro Euribor	–	3.123	3.099	3.048	3.041	–	–	–
EONIA	3.08	–	–	–	–	–	–	–
EURONIA	3.0496	–	–	–	–	–	–	–

London Interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, Euro & SDR Linked Deposits (Ds).

INTERNATIONAL CURRENCY RATES

Feb 15	Short term	7 days notice	One month	Three months	Six months	One year
Euro	[illegible]	[illegible]	[illegible]	3⅛ - 3	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	5½ - 5¼	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	1¼ - 1	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	4 - 3	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURIBOR FUTURES (MATIF) Paris Interbank offered rate

[illegible]

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr1m 100-rate

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
98750	0.055	0.100	0.120	0.145	0.260	0.410
98875	0.025			0.240		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 3930 Puts 2112

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

■ THREE MONTH EURODOLLAR (CME) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.99	94.97	-0.02	94.99	94.96	51,714	435,309
Jun	94.97	94.90	-0.08	94.97	94.89	48,594	444,809
Sep	94.94	94.84	-0.10	94.94	94.83	103,302	410,752

■ US TREASURY BILL FUTURES (CME) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.67	95.62	-0.05	95.67	95.62	108	2,511
Jun	95.69	95.64	-0.08	95.69	95.68	2	708

All Open interest figs. are for previous day

BASE LENDING RATES

	%		%		%
Adam & Company	5.50	Exeter Trust Limited	6.50	Smith & Williamson	5.50
Allied Irish Bank (GB)	5.50	•Robert Fleming & Co	5.50	Sun Bank	5.50
•Henry Ansbacher	5.50	Habib Bank AG Zurich	5.50	TSB	5.50
Banco Bilbao Vizcaya	5.50	Heritable & Gen Inv Bk	5.50	United Bank of Kuwait	5.50
Bank of Cyprus	5.50	C. Hoare & Co	5.50	Unity Trust Bank Plc	5.50
Bank of Ireland	5.50	•SG Hambros Bank & Trust	5.50	Whiteaway Laidlaw	5.50
Bank of India	5.50	Hongkong & Shanghai	5.50	Yorkshire Bank	5.50
Bank of Scotland	5.50	Investec Bank (UK) Ltd	5.50		
Barclays Bank	5.50	Julian Hodge Bank	5.50		
Brit Bk of Mid East	5.50	•Leopold Joseph & Sons	5.50		
•Brown Shipley & Co Ltd	5.50	Lloyds Bank	5.50		
Citibank NA	5.50	Midland Bank	5.50		
Clydesdale Bank	5.50	NatWestminster	5.50		
The Co-operative Bank	5.50	•Rea Brothers	5.50		
Coutts & Co	5.50	Royal Bk of Scotland	5.50		
Cyprus Popular Bank	5.00	Scottish Widows Bank	5.50		
Duncan Lawrie	5.50	•Singer & Friedlander	5.50		

• Members of London Investment Banking Association

Crude oil prices largely flat in light trading

MARKETS REPORT

By Robert Corzine and Gillian O'Connor

Oil prices were largely flat in light trading, with Brent Blend for April delivery quoted at $10.37 a barrel in late trading on London's International Petroleum Exchange, down 6 cents from Friday's close.

The low level of activity was attributed to the long holiday weekend in the US, where there was no trading in oil futures on the New York Mercantile Exchange. It was also the start of a week of annual oil industry events in London.

The Centre for Global Energy Studies in London yesterday estimated the global crude surplus at a "colossal 550m barrels", and predicted that a new 1m barrel a day Opec cut from the second quarter would boost average second-half prices by 8 per cent over the first half of the year.

However, other analysts thought high refined product inventories posed a greater threat: "Crude supplies are now better balanced," said Gary Ross of Pira, a New York consultancy. "But the product overhang is far more serious." He said crude prices would be $1 a barrel above present levels without the refined product surplus.

Ted Arnold's first report since he moved to Prudential Bache argues that hedge funds are already positioning themselves for a strong price rally in metals by the fourth quarter of this year, or at the latest, in the first half of 2000.

Anyone who fails to follow suit in the next few months may be too late for the price take-off, Mr Arnold says, because fund managers expect prices to run up ahead of the economic recovery. "The LME is now much more of an anticipatory type of market," he says.

A marked change in "sentiment" is the main reason for Mr Arnold's bullishness. He argues that, although the supply side has not changed much in the last six to eight weeks, sentiment about the demand side certainly has.

Asia has bottomed out, he says, the euro-zone countries should be picking up by the late fourth quarter, and metal prices should benefit regardless of whether the US economy grows or stalls.

Mr Arnold shares the common view that the worst is over for nickel and zinc. He is more cautious about copper and aluminium – particularly aluminium.

Trading on the London Metal Exchange was very thin yesterday, because of the large number of public holidays. Base metal prices had drifted lower by the close of trading.

On the London bullion market silver continued strong, and lease rates touched 15 per cent, prompting the familiar rumours that Warren Buffett is active in the market again.

The London Bullion Market Association said yesterday that although the silver market had been more active, "it is clear that the market continues to trade in an orderly manner. We will continue to monitor the situation."

Senegal fights back against desertification of its land

Planting trees may prove a powerful weapon in combating the effects of drifting sand and lower rainfall, writes **John Madeley**

Sand is the great enemy of farmers who grow the staple crops cassava and millet in the Sahel belt of Senegal, blowing mercilessly over the land, degrading their soil, and robbing them of decent yields and incomes.

In Senegal, on the south-west fringe of the Sahara desert, around 15 per cent of the country's villages have been abandoned because of land degradation, caused largely by drifting sand and lower rainfall. Other villages lie partly abandoned, with some people finding they can no longer survive.

Land degradation has become a worldwide problem, affecting about a quarter of the world's land area, according to the United Nations Environment Programme.

Klaus Topher, the UNEP executive-secretary, says the income lost by people living in desertified areas amounts to $42bn a year in lower agricultural production.

The UN's Rome-based International Fund for Agricultural Development (IFAD) is meeting this week to discuss productivity in desertified areas.

There are signs of a turnround in some areas facing desertification. Farmers are beginning to fight back with a powerful weapon – trees.

In Senegal, under the aid-funded Village Organisation and Management project, sand is being stopped by belts of trees that have been planted around one hectare plots of millet and cassava.

In total, some 6,000 hectares in the area are being protected. Three years after planting trees, cassava yields have risen from 2,000 kg to 6,000 kg a hectare, and millet yields from 400 kg to 700 kg.

In the international arena, three years ago, the Convention to Combat Desertification (CCD) was launched with the aim of reducing, and even reversing, the effects of land degradation.

One of three international conventions to come out of the 1992 Earth Summit in Brazil – climate change and biodiversity being the others – the CCD has been ratified by 144 governments.

Western governments would not agree to the convention having a fund to combat land degradation, taking the view that funds were already available within the development assistance system.

Instead, it was decided that a device called the "global mechanism" should be set up to mobilise funds for the purpose.

The mechanism's managing director, Per Ryden of Sweden, wants to ensure that money already available is used more efficiently.

"Once we can show that, I don't have any doubts that it will be possible to raise additional resources," Mr Ryden says.

He believes there is "a common understanding that the problem of desertification, linked to the poverty problem, is something that the world wants to address".

The global mechanism is housed at IFAD, which plans to invest around $100m a year in projects to raise agricultural productivity in dry areas. Details about the plan are being considered in Rome this week.

Even if funding for planting trees is secured, the problems caused by lower water supplies remain

In addition to mobilising funds from the usual development assistance sources, Mr Ryden is looking at how to access "new and innovative sources of funds", including the possibility of organising debt swaps.

However, even if funding for planting trees is secured, the problem caused by sharply lower water supplies remains. In the more northerly Diourbel region of Senegal, shelter belts of trees are being planted around the fields, protecting its crops, says Madguette Diop, chairman of the village of Ndiam Syll.

The village was home to 400 people but a 100 have now left because their land can no longer support them. "Their millet harvest was not enough for them to survive," says Mr Diop.

"If people had water, they could stay here. There is water underground but the problem is that it's around 75 metres deep," he adds. To build a well that deep would cost around $70,000.

The UNEP puts the global cost of anti-desertification measures at between $10bn and $22bn a year, and the big question is whether the money raised by international organisations will be anything close enough to help the world's dry-land farmers to stay and make a living amid the sand.

NEWS DIGEST

SUGAR

Australian growers fear competition from Brazil

Australian sugar cane growers, already hard hit by two years of weather damage and low world prices, fear intensifying competition from Brazil. There is increasing anxiety in the world sugar market over increasing supplies from Brazil, as a result of its devaluation of its currency, said John Allison, general manager of Australian Cane Farmers Association, in the latest issue of association's Australian Sugar Digest.

"Some analysts are suggesting another 2m tonnes of sugar may be released by the Brazilians on to an already oversupplied world market," he said. Mr Allison, who recently met industry leaders in Brazil, said Australian cane farmers needed to be concerned about the long-term threat from the Brazilian sugar industry. "This industry is presently 10 times the size of the Australian industry and has tremendous potential for further expansion," he said.

Despite its potential for expansion, the Brazilian sugar industry was suffering from substantial financial woes, which in the short to medium term would divert Brazil's attention to rationalisation and consolidation, he said. **Reuters**

OIL

BHP assets under review

Broken Hill Proprietary, the Australian resources group, is reviewing its Australian oil assets for potential sale, said CIBC World Markets, BHP Petroleum's adviser. The assets include interests in the Timor Sea, North West Shelf and Bass Strait, but BHP has in the past said the Bass Strait and North West Shelf interests were core assets. CIBC said Bass Strait was "not necessarily" under review.

Meanwhile, BHP is to abandon its Tasman shipping service between Australia and New Zealand due to continued losses. Freight rates have fallen by 50 per cent in the past four to five years while the number of shipping operators has risen by up to 15 per cent. **Agencies**

Indonesia may liberalise

Indonesia is considering the liberalisation of its oil refinery industry and the retail market for oil products, according to the Jakarta Post. The move comes after earlier efforts failed to attract any serious investment.

Kuntoro Mangkusubroto, Mines and Energy Minister, said discussions were taking place over a new law that would remove the monopoly of Pertamina, the state oil and gas company and allow the private sector to build refineries in the country, buy crude oil and sell products on the domestic market. **Reuters, Jakarta**

PRESIDENTS DAY

US prices

US commodity markets were closed yesterday for Presidents Day. Prices shown below are Friday's closing prices.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1180.5-1.5	1204.5-5.0
Previous	1191.5-2.5	1215-16
High/low		1213/1203
AM Official	1185.5-6.5	1210.5-11.5
Kerb close		1203-3.5
Open int.	305,368	
Total daily turnover	64,702	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1028-33	1048-53
Previous	1033-38	1055-60
High/low		1055/1050
AM Official	1025-27	1053-55
Kerb close		1050-2
Open int.	7,541	
Total daily turnover	4,649	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	518-520	518-20
Previous	520-21	517-18
High/low		520/517
AM Official	519.5-20.0	519-20
Kerb close		519-20
Open int.	39,275	
Total daily turnover	4,829	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4505-15	4580-85
Previous	4550-60	4620-30
High/low		4625/4575
AM Official	4500-505	4585-90
Kerb close		4585-90
Open int.	74,133	
Total daily turnover	13,381	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5180-85	5150-55
Previous	5180-85	5155-60
High/low		5170/5140
AM Official	5185-90	5165-70
Kerb close		5145-50
Open int.	21,222	
Total daily turnover	2,016	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1010.5-1.5	1027-8
Previous	1026-27	1041-2
High/low		1031/1027
AM Official	1013.5-14.0	1030-31
Kerb close		1029-30
Open int.	102,896	
Total daily turnover	14,213	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1414.5-5.5	1444-5
Previous	1443-44	1472-73
High/low		1464/1445
AM Official	1420-21	1449-49.5
Kerb close		1445-6
Open int.	166,765	
Total daily turnover	39,780	

■ LME AM Official £/$ rate: 1.6302
LME Closing £/$ rate: 1.6270

Spot 1.6274 3 mths 1.6262 6 mths 1.6264 9 mths 1.6278

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	65.35	-0.75	65.95	65.30	1,008	1,221
Mar	65.50	-0.75	66.70	65.40	4,205	30,866
Apr	65.90	-0.75	66.60	65.85	30	2,232
May	66.25	-0.75	67.15	66.20	934	8,570
Jun	66.55	-0.75	67.30	66.55	10	1,466
Jul	67.00	-0.75	67.80	66.90	163	6,693
Total					6,584	66,702

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	289.25-289.75		
Opening	289.70-290.00		
Morning fix	290.050	177.872	257.273
Afternoon fix	289.200	177.478	257.410
Day's High	290.50-290.80		
Day's Low	289.20-289.50		
Previous close	289.70-290.20		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.16	6 months	3.99
2 months	4.14	12 months	3.58
3 months	4.13		

Silver Fix	p/troy oz.	US cts equiv.
Spot	352.54	575.00

Silver Lending Rates

1 month	-11.0	6 months	-7.00
2 months	-9.00	12 months	-5.00
3 months	-8.00		

Gold Coins	$ price	£ equiv.
Krugerrand	290-294	178-180
New Sovereign	68-72	41-43

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	290.5	+1.9	290.8	288.8	423	972
Mar	290.5	+1.9	-	-	-	2
Apr	291.2	+1.9	292.0	289.0	10,861	99,361
Jun	293.1	+1.9	293.8	291.1	1,675	25,094
Aug	295.1	+2	-	-	50	6,762
Oct	297.0	+2	-	-	3	2,802
Total					14,405	183,840

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	370.6	+6.0	373.0	364.0	3,838	9,730
Jul	372.1	+5.2	375.0	369.0	117	1,604
Oct	374.3	+4.9	373.5	372.0	53	1,060
Total					3,955	12,397

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	357.50	+3.50	364.00	355.00	377	2,330
Jun	347.50	+5.50	349.00	343.00	62	798
Sep	341.50	+5.50	341.00	333.00	-	127
Total					439	3,359

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	565.9	+10.3	-	-	-	-
Mar	566.2	+9.7	570.0	556.0	16,822	57,556
May	566.5	+7.6	570.0	558.0	2,312	18,176
Jul	565.1	+5.2	570.0	561.0	196	10,911
Sep	563.7	+3.3	565.5	563.0	21	3,976
Dec	561.1	+0.4	568.0	562.0	98	6,637
Total					19,492	101,010

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	11.88	+0.03	12.07	11.85	51,437	72,322
Apr	11.96	+0.03	12.12	11.95	47,773	88,201
May	12.09	+0.03	12.23	12.05	13,366	55,691
Jun	12.21	+0.02	12.34	12.15	8,659	43,574
Jul	12.33	+0.01	12.43	12.26	2,736	24,562
Aug	12.45	+0.01	12.59	12.44	2,885	17,656
Total					145,572	530,753

■ CRUDE OIL IPE ($/barrel)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	10.37	-0.06	10.49	10.33	7,159	75,623
May	10.54	-0.09	10.65	10.54	2,267	41,314
Jun	10.74	-0.11	10.84	10.73	331	32,732
Jul	10.93	-0.09	11.02	10.92	149	13,449
Aug	11.09	-0.09	11.18	11.06	524	6,063
Sep	11.24	-0.09	11.33	11.33	256	5,247
Total					9,808	234,591

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	30.37	-0.02	30.90	30.30	13,625	40,109
Apr	30.98	-0.07	31.45	30.90	6,432	24,949
May	31.58	-0.12	32.00	31.50	829	15,129
Jun	32.23	-0.17	32.70	32.15	2,471	13,833
Jul	33.08	-0.22	33.50	33.25	847	11,926
Aug	33.98	-0.22	34.40	34.30	1,934	9,751
Total					29,880	161,151

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	94.25	+0.50	95.25	93.00	3,614	37,547
Apr	95.00	-0.25	96.25	94.25	874	19,111
May	97.00	-	98.25	97.00	270	10,862
Jun	98.50	-0.25	100.50	99.50	127	10,137
Jul	102.00	-0.50	103.00	102.00	36	4,483
Aug	104.50	-0.50	105.75	104.50	122	5,529
Total					5,000	128,748

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	9.470	-0.010	9.470	9.460	105	5,565
Apr	9.230	+0.020	9.230	9.230	50	3,600
Total					505	28,030

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1.807	-0.025	1.842	1.795	32,056	54,900
Apr	1.835	-0.030	1.870	1.820	10,042	30,946
May	1.865	-0.025	1.895	1.855	6,374	19,966
Jun	1.888	-0.012	1.915	1.885	3,297	16,209
Jul	1.911	-0.019	1.935	1.905	1,734	14,998
Aug	1.937	-0.013	1.955	1.935	735	11,249
Total					62,458	269,231

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	33.65	+0.21	33.95	33.40	13,637	33,408
Apr	37.12	+0.17	37.40	36.95	8,694	24,526
May	38.49	+0.08	38.75	38.30	3,070	17,780
Jun	39.48	+0.05	39.70	39.30	1,971	13,463
Jul	40.13	-	40.30	40.00	792	14,629
Aug	40.48	-0.05	40.40	40.40	656	3,130
Total					29,951	113,679

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	72.65	-0.60	73.00	72.60	266	1,180
May	73.80	-0.60	74.10	73.50	455	3,650
Jul	75.65	-0.65	75.60	75.50	40	955
Sep	74.50	-0.75	74.75	74.50	7	157
Nov	76.10	-0.50	76.50	76.10	37	2,045
Jan	78.10	-0.60	78.00	78.00	-	461
Total					795	8,449

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	257.50	-5.25	263.00	257.00	16,117	56,224
May	268.25	-5.25	273.50	268.00	7,047	28,747
Jul	277.50	-5.75	283.00	277.00	6,888	39,984
Sep	288.25	-5.50	293.00	288.00	685	3,533
Dec	300.00	-4.5	305.00	301.25	464	4,941
Mar	312.00	-4	315.00	312.00	37	297
Total					31,041	133,757

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	215.00	-1	217.00	214.25	39,713	135,724
May	221.25	-1.25	223.25	220.75	12,557	80,865
Jul	228.50	-1.5	228.00	226.75	8,517	75,553
Sep	232.75	-2	234.75	232.00	690	18,631
Dec	240.75	-1	242.25	240.25	3,385	44,340
Mar	248.25	-1	248.75	247.75	104	5,177
Total					65,126	364,606

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	76.35	-0.40	76.35	76.35	2	227
May	77.35	-0.40	77.35	77.35	2	66
Sep	75.10	-0.40	-	-	-	35
Nov	77.35	-0.40	-	-	-	255
Jan	79.35	-0.40	-	-	-	29
Total					4	612

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	492.25	-3	498.00	491.75	26,518	61,272
May	497.00	-3.25	502.75	496.50	9,409	35,632
Jul	503.25	-3.50	508.50	503.00	4,923	34,402
Aug	505.75	-3	511.00	505.50	653	10,534
Sep	505.75	-3.5	512.00	505.50	657	3,877
Nov	513.75	-3	519.00	513.50	3,470	22,369
Total					45,672	189,765

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	20.65	+0.02	20.92	20.51	11,869	45,139
May	20.89	-	21.14	20.75	7,590	33,332
Jul	21.15	+0.03	21.35	21.02	4,976	21,520
Aug	21.28	+0.06	21.48	21.17	1,011	5,566
Sep	21.38	+0.08	21.60	21.28	516	5,827
Oct	21.37	+0.02	21.70	21.35	314	3,083
Total					26,822	136,982

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	129.5	-1.3	131.0	129.3	10,476	40,787
May	128.1	-1	130.5	128.0	6,345	32,051
Jul	131.4	-1	133.2	131.4	3,120	28,403
Aug	133.3	-0.9	134.5	132.9	1,311	8,472
Sep	134.8	-1.2	135.2	134.5	1,147	8,005
Oct	135.8	-1.8	137.2	135.5	74	3,279
Total					23,705	131,185

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	236.0	-	-	-	-	-
Apr	285.0	-9.0	290.0	284.9	48	2,050
May	300.0	-9.0	-	-	-	29
Jun	310.0	-9.0	-	-	-	28
Nov	90.0	-	-	-	-	3
Total					48	2,160

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	845	-	846	830	52	197
Mar	905	+5	910	905	14	169
Apr	935	+10	960	955	11	1,014
Jul	830	+20	835	835	-	602
Oct	940	+10	940	940	-	35
Total					77	2,387

	Close	Prev
BFI	818	812

PULP AND PAPER

■ POLPEX CMLX (US$, 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	396.25	-1.75	400.00	396.25	17	396
Jun	416.25	-3.75	420.00	416.25	0	336
Total					17	736

FUTURES DATA
All futures data supplied by CMS.

Minor Metals from Metal Bulletin
European free market, $ per pound in warehouse. Antimony: 99.65%, $ per tonne, 1,430-1,485 (1,410-1,460). Bismuth: min. 99.99%, tonne lots, 2.85-3.10. Cadmium: min. 99.95%, cents a pound, 20-24 (18-22). Cobalt: MB free market, min. 99.8%, 18.00-20.00 (16.50-19.00), min. 99.3%, 16.70-18.30 (14.80-17.00). Mercury: min. 99.99%, $ per 76 pound flask, 137-145. Molybdenum: drummed molybdic oxide, 2.90-3.10 (2.80-2.95). Selenium: min. 99.5%, 1.40-2.30. Tungsten ore: standard min. 65%, $ a tonne unit (10kg) WO_3, cif, 33-44. Uranium: Nuexco, exchange value 8.85. Vanadium: min. 98%, 2.45-2.60 (2.45-2.60).

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	880	+1	892	874	2,079	28,629
May	890	-4	882	865	4,626	43,098
Jul	891	-4	900	884	325	13,225
Sep	913	-8	916	900	1,005	29,861
Dec	935	-8	938	923	1,102	24,198
Mar	958	-5	962	949	607	17,198
Total					11,605	194,858

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1256	-17	1291	1255	7,631	8,604
May	1271	-25	1308	1268	8,869	35,293
Jul	1298	-26	1335	1297	345	9,950
Sep	1328	-24	1362	1328	140	5,382
Dec	1365	-23	1402	1369	17	6,354
Mar	1406	-23	1440	1422	171	6,333
Total					17,392	72,184

■ COCOA (ICCO) (SDR's/tonne)

Feb 12	Price	Prev. day
Daily	985.91	1004.91

■ COFFEE LIFFE ($ tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1779	+18	1780	1760	1,495	20,230
May	1691	+13	1692	1670	1,594	18,115
Jul	1671	+7	1672	1663	580	4,642
Sep	1661	+6	1660	1659	77	2,216
Nov	1651	+6	-	-	-	465
Jan	1641	+6	1655	1637	56	303
Total					3,707	46,066

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	105.90	-0.85	108.80	105.75	11,374	11,755
May	107.20	-1.25	108.40	107.10	7,994	14,508
Jul	108.40	-1.45	109.85	108.30	375	4,137
Sep	109.75	-1.75	111.00	109.75	125	3,198
Dec	111.00	-1.9	113.00	111.50	27	1,530
Mar	112.30	-2	113.25	113.00	3	438
Total					19,830	35,686

■ COFFEE (ICO) (US cents/pound)

Feb 11	Price	Prev. day
Comp. daily	93.90	94.55
15 day average	93.21	93.17

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	231.6	+0.2	237.0	231.6	1,214	1,630
May	224.0	+0.6	224.0	222.5	74	23,462
Aug	218.2	+0.7	218.0	217.5	11	10,397
Oct	211.0	+1.4	-	-	-	7,860
Dec	213.2	+1.5	213.0	213.0	4	1,885
Mar	215.3	+0.8	215.3	215.0	6	729
Total					[illegible]	44,982

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	6.75	+0.06	6.80	6.62	16,651	55,275
May	6.64	+0.06	6.69	6.53	11,330	49,306
Jul	6.59	+0.04	6.65	6.50	4,350	34,679
Oct	6.67	+0.05	6.82	6.78	1,211	21,804
Mar	7.32	+0.09	7.40	7.26	672	14,043
May	7.39	+0.09	7.42	7.42	119	2,343
Total					34,608	179,505

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	58.62	+0.1	57.10	56.35	8,769	22,355
May	57.41	-0.12	57.85	57.15	6,686	23,420
Jul	58.13	-0.2	58.85	58.05	2,334	13,470
Oct	59.15	-0.13	59.70	59.30	78	1,603
Dec	59.75	-0.13	60.05	59.65	1,701	15,126
Mar	60.78	-0.12	61.30	60.90	78	1,723
Total					n/a	n/a

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	85.85	+2.8	86.40	85.10	5,176	15,803
May	85.85	-2.8	87.30	84.50	1,243	8,763
Jul	86.25	-1.5	87.25	84.75	740	3,767
Sep	86.25	-1.95	87.75	85.75	181	920
Nov	86.15	-2.45	87.00	84.00	61	693
Jan	86.40	-2.2	88.00	86.00	45	378
Total					n/a	n/a

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Feb 15	Feb 12	month ago	year ago
1432.3	1440.1	1505.9	1732.3

■ CRB Futures (Base: 1967 = 100)

Feb 11	Feb 11	month ago	year ago
187.18	187.18		

■ GSCI Spot (Base: 1970 = 100)

Feb 12	Feb 11	month ago	year ago
132.87	133.11	138.46	176.84

■ LME WAREHOUSE STOCKS (tonnes)

Aluminium	+900	to	609,375
Aluminium alloy	-1,280	to	91,160
Copper	+1,700	to	660,025
Lead	+125	to	107,425
Nickel	+78	to	65,664
Zinc	-125	to	409,475
Tin	+6	to	7,220

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	65.150	+0.225	66.650	63.900	3,248	11,112
Apr	67.575	+0.450	67.725	67.100	4,814	52,108
Jun	65.975	+0.400	66.000	65.450	1,419	28,157
Aug	65.375	+0.500	65.775	65.275	451	13,075
Oct	66.575	+0.500	66.875	66.575	246	7,705
Dec	67.550	+0.525	68.175	67.550	90	3,576
Total					10,306	116,356

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	42.125	+0.125	42.200	41.850	1,250	5,331
Apr	46.775	+0.500	47.675	46.700	3,809	17,355
Jun	56.500	+0.500	58.500	54.500	1,352	9,045
Jul	56.725	+0.150	57.300	56.700	480	3,934
Aug	57.200	+0.275	57.750	57.175	219	3,486
Oct	55.950	+0.550	56.400	55.850	194	4,004
Total					7,421	45,363

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	58.000	+0.200	58.450	56.250	296	780
Mar	58.400	+0.050	58.400	56.550	905	3,127
May	57.750	-	59.250	57.900	112	1,364
Jul	58.700	+0.700	60.000	58.900	22	879
Total					1,342	6,177

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Mar	Jun	Mar	Jun
1150	45	3	81	17
1200	13	21	50	35
1250	1	80	28	63
■ COPPER (Grade A) LME	Mar	Jun	Mar	Jun
1450	14	36	66	61
1500	3	75	45	89
1550	1	122	29	122
■ COFFEE LIFFE	Mar	May	Mar	May
1650	129	87	1	46
1700	81	61	2	70
1750	39	41	10	100
■ COCOA LIFFE	Mar	May	Mar	May
800	3	24	14	44
925	1	16	37	61
950	1	12	61	82
■ BRENT CRUDE IPE	Mar	Apr	Mar	Apr
1000	67	98	30	44
1050	41	70	54	68
1100	24	50	87	96

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$9.64-9.77x	-0.07
Brent Blend (dated)	$10.26-0.33	-0.01
Brent Blend (Mar)	$10.21-0.29	-0.055
W.T.I.	$11.86-1.90x	

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

		+or-
Premium Gasoline	$117-119	
Gas Oil	$95-96	
Heavy Fuel Oil	$55-57	
Naphtha	$95-97	
Jet fuel	$111-112	-1
Diesel	$103-104	

■ NATURAL GAS (Pence/therm)

Bacton (Mar)	9.45	

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

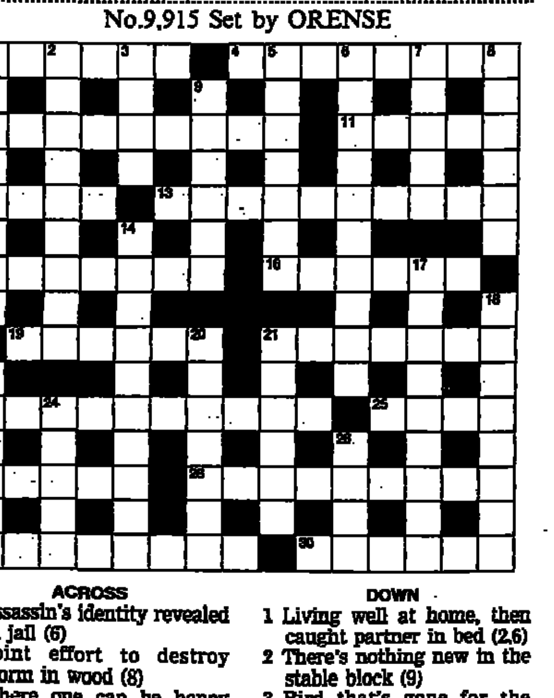
		+or-
Gold (per troy oz)‡	$289.50	-0.45
Silver (per troy oz)§	575.00c	+4.00
Platinum (per troy oz.)	$369.00	+0.50
Palladium (per troy oz.)	$357.00	+0.25
Copper	71.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	19.53r	
Tin (New York)	246.5	-1.0
Cattle (live weight)	83.50p	+2.30*
Sheep (live weight)	91.01p	+9.84*
Pigs (live weight)†	62.35p	+4.69*
Lon. day sugar (raw)	$189.10	-0.10
Lon. day sugar (wte)	$232.50	-0.90
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Mar)¥	47.00p	
Rubber (Apr)¥	48.00p	
Rubber (KL RSS No1)	258.50m	+0.50
Coconut Oil (Phil)§	757.5	
Palm Oil (Malay.)§	632.50	
Copra (Phil)§	460.0y	
Soyabeans (US)	148.5y	
Cotton Outlook'A' index	56.35	
Wooltops (64s Super)	298p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Sep/Oct. z Mar. ¥ London Physical. § CIF Rotterdam. ‡ Bullion market close. * Change on week. †Based on 584 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,915 Set by ORENSE



ACROSS

1 Assassin's identity revealed in jail (6)
4 Joint effort to destroy worm in wood (8)
10 Where one can be happy about flashy number (5,4)
11 Wander around at day-break (5)
12 Warning chaps to follow first officer (4)
13 Water from wine! Dreamer without a formula (10)
15 Proceed to call back and eat out (7)
16 Stubborn, adopting alien way round (6)
19 Customer's right of possession in contract case (6)
21 A foot of water in the Vatican, for example (7)
23 A way to save on company security at sea (10)
25 Honest game inside empty theatre (4)
27 Object to nightdress (5)
28 E-Type offering a lift (9)
29 Newspaper business that creates new fashions (3,5)
30 A heavy drinker may have one and turn over backwards (6)

DOWN

1 Living well at home, then caught partner in bed (2,6)
2 There's nothing new in the stable block (9)
3 Bird that's gone for the same – again (4)
5 Corrected half of them and stopped (7)
6 In order to remain, do show self-restraint (10)
7 Green circle charged with energy (5)
8 Potential fat cat with equipment to turn profit round (6)
9 Good guess! (6)
14 Where news is good in row – he's all bluster! (5-5)
17 Short of cards – sneaky (9)
18 Abandon gold runner when crossing border (8)
20 Bound to hear of confidence (7)
21 The type that's for expedition (6)
22 Need escort when out for a duck (6)
24 Doing a copy of recording with no intro (5)
26 Add up, with a point to ponder (4)

Solution to Saturday's prize puzzle on Saturday February 27.
Solution to yesterday's prize puzzle on Monday March 1.

For solutions to today's crossword call 0891 430060.
Calls cost 50p a minute.

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Grs
Fidelity Currency Funds Ltd						
Pembroke Hall, Pembroke, Bermuda						
[illegible]						
Jupiter Asset Management (Bermuda) Ltd						
PO Box HM1258, Hamilton, Bermuda 001 441 292 2760						
[illegible]						
UK Smlr Cos			£17.45		—	1.25
Newport Investment Management						
[illegible]						
Orion Fund Limited						
6 Front St., Hamilton, HM11, Bermuda HM 1441 292 0070						
Orion (Seed) Oct 15			$27.36		—	-

BERMUDA (REGULATED)(**)

	Selling Price	Buying Price	+ or -	Yield Gross
Antares Investment Management Ltd				
[illegible]				
Bermuda Intl Invest Mgmt Ltd				
[illegible]				

CAYMAN ISLANDS (REGULATED)(**)

[illegible]

MFS Meridian Funds - Contd.

	Selling Price	Buying Price	+ or -	Yield Grs
[illegible]				
Marshall Wace Asset Management Limited				
[illegible]				
Masters International Advisors				
[illegible]			$335.09	
Montgomery Emerging Markets Fund Ltd				
NAV Oct 16	$752.19		—	-
Morgan Stanley Offs Advisory Mortgage Fd Inc				
Class A Shares	$10.16			-
National Investment Trust Company Ltd				
The New Taipei Fund Ltd	$15.8762			-
North Atlantic Management Co Ltd				
Company	$17.39	17.31	—	-
Olympus Capital Management Ltd				
[illegible]				
Omega Overseas Partners Ltd				
[illegible]	$251.0584		—	-
Opportunity Fund (z)				
[illegible]				
Orion Capital Advisors Ltd				
[illegible]				
The Osprey Group Of Funds				
Contour Fund Ltd	$10.1314		—	-
Pacific & General Investments Inc				
NAV	$1.3938		—	-
Pakistan Fund				
[illegible]				
Pantheon International Ltd				
NAV Jan 31	$128.35		—	-
Perry Partners International Inc				
NAV Nov 30	$303.15		—	-
Philippine Income Fund Inc				
NAV Feb 10	$8.36		—	-
Pro Value AG				
European Focus Feb 5	Eur128.878		—	-
Prudential Securities Futures Mgmt, Inc				
[illegible]				

Royal Bk of Canada O/S Fd Mgrs Ltd

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

GUERNSEY (FSA RECOGNISED)

[illegible]

IRELAND (FSA RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (FSA RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (FSA RECOGNISED)

[illegible]

NEWS DIGEST

...tralian growers fear ...petition from Brazil

...assets under review

...onesia may liberalise

...prices

...European benchmarks.

STOXX

CROSSWORD

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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Barclays International Funds
PO Box 152, St Helier, Jersey CI 01534 812700

Gartmore Fund Managers Intl Ltd (z)

Hill Samuel Fund Mgrs (Jsy) Ltd (1000)F

Lloyds Bank (CI) U/T Mgrs.
PO Box 311, St Helier, Jersey 01534 284242

Lloyds TSB Fund Managers (CI) Ltd
PO Box 538, St Helier, Jersey 01534 503002

Minerals, Oils Res. Shrs. Fd. Inc.

Murray Johnstone (Jersey) Limited

Newton Fund Managers (CI) Ltd

Northgate Unit Tst. Mngr. (Jersey) Ltd

Royal Bank of Scotland Fund Managers (CI) Ltd

Royal Bk of Scotland Fd Mngrs (Jersey) Ltd

SG Hambros Fund Managers (Jersey) Ltd

Standard Bank Fund Mngmt (Jersey) Ltd

For TSB Fd Mngrs (CI) Ltd see Lloyds TSB Fd Mngrs

WMB Asset Management (Jersey) Ltd

Worldinvest (Managers) Jersey Ltd

LUXEMBOURG
(FSA RECOGNISED)

JERSEY
(REGULATED)(**)

LUXEMBOURG
(REGULATED)(**)

OFFSHORE
INSURANCES

هكذا من الاصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

OTHER OFFSHORE FUNDS

● MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

Net asset values supplied by Lipper as a guide only. See guide to London Share Service

INVESTMENT COMPANIES

[illegible]

Net asset values supplied by Lipper as a guide only. See guide to London Share Service

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

TRADED INDEX SECURITIES

[illegible]

AIM

Alternative Investment Market

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the UK Official list.

[illegible]

AIM - Continued

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as *a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.*

Earnings used in calculations are based on IIMR "Headline Earnings" formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent (except where payment is due after 6/4/99 when no tax credit will be applied) and allow for the value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- *Figures or report awaited*
- Rule 2.1(b)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- \# Price at time of suspension
- , Indicated dividend yield after pending scrip and/or rights issue
- Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

a Yield based on [illegible] dividend.
b Figures based on prospectus or other official estimates.
f Dividend/yield adjusted for complex issue.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
x Rights issue pending.
q Earnings based on preliminary figures.
s Dividend yield includes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings.
v Dividend/yield includes amount payable after 6/4/99.
z Dividend yield includes a special payment.
F Yield based on prospectus or other official estimates for 1998-99.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1999.
K Yield based on prospectus or other official estimates for 1998.
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
N Dividend is paid in whole or part as a FID (Foreign Income Dividend).
P Dividend/yield adjusted for consolidation or share split.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
ᵡd ex dividend;
ᵡc ex scrip issue;
ᵡr ex rights;
ᵡa ex all;
ᵡd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1570 a year for each security shown, subject to the Editor's discretion.

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FT Cityline

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An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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For Retail Price Index details call 0891 43 0005

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

LONDON STOCK EXCHANGE

Bid optimism drives Footsie back above 6,000

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

With the US stock market closed for the Presidents' day holiday – and many of the Asian markets due to close during the week for the Chinese New Year – it was a quiet start to the week for UK stocks in turnover terms.

But the lack of turnover did not prevent London from extending its rally to a third session, as many dealers and investors refocused their attention on the long-time market favourites, the banks, telecoms, drugs and media stocks.

Those sectors, which have been the driving forces behind the London market over the past couple of years, were in the forefront of yesterday's strong market performance, providing the top-four winners.

Marketmakers said last week's stunningly good figures from Lloyds TSB – the first of the UK banks to report in the current season – had triggered a strong follow-through of demand for the rest of the sector, especially Barclays Bank.

The latter raced up another 4 per cent in front of today's numbers, which dealers expect to produce a 15 per cent-plus increase in the dividend total.

NatWest, due to report a week today, and Lloyds TSB were close behind Barclays.

Telecom stocks were represented in the FTSE 100 index by Colt Telecom, which topped the leader board; the media were led by Pearson, whose shares raced up more than 5 per cent.

At the finish of the session, the FTSE 100 had reclaimed the 6,000 level and showed a 72.5 gain at 6,023.2, compared with its session high of 6,033.2. But the recently outperforming FTSE 250 was left behind, burdened by widespread weakness in many of the property, housebuilding and engineering stocks that have heavy weightings in the second-line index. The FTSE 250 settled 10.5 easier at 5,177.2.

The FTSE SmallCap, meanwhile, nudged higher, closing 3.6 firmer at 2,240.6, helped along by exceptional gains mostly prompted by takeover rumours.

London's initial weakness was prompted by a soggy performance by Wall Street on Friday evening when the Dow Jones Industrial Average ended around 80 points lower in the wake of the sell-off in bond markets.

But dealers in London said the initial weakness did not attract any follow-through selling from domestic and European institutions.

On the contrary, they came in as buyers, picking up the so-called quality stocks. "This is not a market to sell into – the bid stories are everywhere," one dealer said.

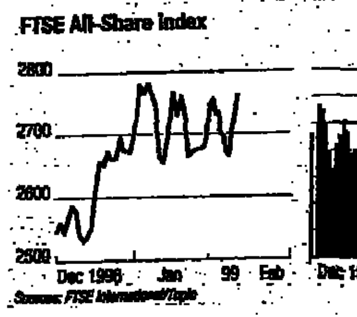
The drinks and leisure arenas of the stock market were alive with takeover stories, the most potent of which was the intensifying speculation that a Whitbread bid for Greenall, the pubs and hotels company, may be imminent.

The market now faces a barrage of important company news items, plus some crucial economic news from both sides of the Atlantic.

This morning's domestic retail price index data for January is expected to show underlying inflation at the government's 2.5 per cent target.

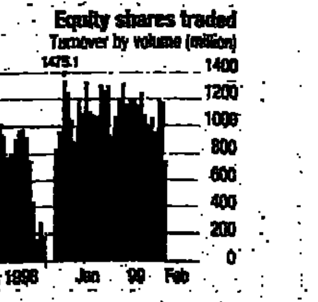
Turnover in equities was 747.4m shares, with non-FTSE 100 stocks accounting for 52 per cent of the total.

FTSE All-Share Index



Equity shares traded

Turnover by volume (million)



Source: FTSE International/Topic

Indices and ratios

FTSE 100	6023.2	+72.5	FT 30	3649.7	+20.4
FTSE 250	5177.2	-10.5	FTSE Non-Fins p/e	[illegible]	[illegible]
FTSE 350	[illegible]	[illegible]	FTSE100 Fut Mar	[illegible]	[illegible]
FTSE All-Share	[illegible]	[illegible]	10 yr Gilt yield	[illegible]	[illegible]
FTSE All-Share yield	[illegible]	[illegible]	Long gilt/equity yld ratio	[illegible]	[illegible]

Best performing sectors

1	Banks, Retail	[illegible]
2	Tobacco	[illegible]
3	Telecommunications	[illegible]
4	Leisure & Hotels	[illegible]
5	Media	[illegible]

Worst performing sectors

1	Construction	[illegible]
2	Pharmaceutic Foods	[illegible]
3	Water	[illegible]
4	Paper, Pckg & Printing	[illegible]
5	Retailers, General	[illegible]

Disposal talk lifts Pearson

COMPANIES REPORT

By Peter John, Joel Kibazo and Simon Bernholt

Pearson, the media group which owns the Financial Times, jumped 68 to £13.65 as optimism about a possible disposal was accentuated by speculation about global stock market developments.

A news story that the group is expected to sell a financial data operation to Primark of the US for £13m-£20m was seen as "continuing the focus on the group's core strengths", said Meg Geldens of Merrill Lynch, the US broker, which has a £15.50 target price on the stock.

There was also talk in the market that the group, which is this year expected to generate more than half its turnover in the US, might be considering a full stock market listing there.

The advantage would be that the company taps into a new and large shareholder base. However, there is also the disadvantage of having to comply with a very stringent regulatory regime. Pearson said yesterday: "At this stage we have taken no decision on a US listing."

Reed International, which does have a full US listing, gained 12½ to 546p with help from a recommendation by ABN-Amro. The broker moved its stance on the shares from "hold" to "buy". *It has a 720p share price target* and believes that, having invested heavily in electronic publishing, Reed is poised to reap the benefits. ABN forecasts that revenue growth will accelerate from 3-4 per cent to 6 per cent.

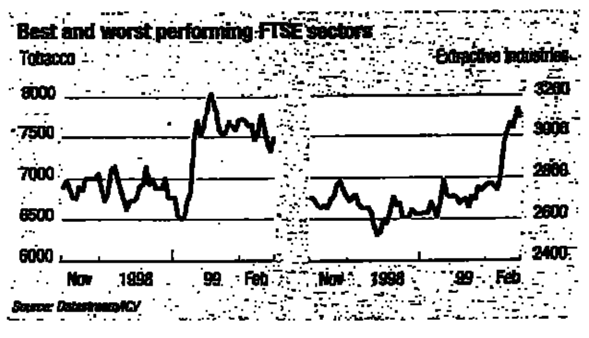
Emap, the UK magazine publisher that bought Petersen of the US for $1.2bn in December, is also said to be mulling a US listing. But the reality is believed to be quite a long way down the line. The shares lost 9 to £12.66.

A two-way pull in a retailer Marks and Spencer brought turnover of 8.3m and left the shares unchanged at 366¾p ahead *of an important meeting* with analysts later this week.

Following, the group's boardroom battles last year and what some called "the worst trading statement we have ever had", published in January, dealers said the company has been on a charm offensive.

Peter Salsbury, chief executive, has been seeing fund managers and analysts will get the opportunity to meet the new head of the troubled retailing giant on Thursday.

Best and worst performing FTSE sectors



Source: Datastream/ICV

A warning in mid-January that profits this year will be well below market forecasts sent M&S shares plunging.

Profit-taking left Dixons 1½ lighter at £10.43½. The company said it is open to the idea of floating its Freeserve free internet service, although one analyst said, "I think such a move is still some way off."

Bid speculation in Austin Reed helped the shares gain 14½ to 113½p after businessmen Shami Ahmed was reported to have bought a stake of around 2 per cent in the retailer.

Dealers blamed profit-taking for the slide in Boots. The shares closed 33 off at 894p, the worst performer in the FTSE 100.

National Power lifted 8½ to 535½p in the wake of a news story that the company is considering floating its overseas interests. Also CSFB issued a "buy" recommendation and WestLB Panmure recommended the stock up to 650p.

A broker recommendation helped BG gain 4¼ to 355p. John Besant-Jones at ABN-Amro said: "The shares have come rattling back so far they look cheap and we have a 400p price target which assumes $11 oil this year."

Second-line oil stocks, which have been shunted around by consolidation rumours were firm yesterday. Enterprise, which might or might not link with Lasmo, gained 5¾ to 255p and Lasmo, which is expected to write down up to £400m when it announces its figures next week, recovered 4¾ to 117p.

Monument Oil & Gas, which drove forward last week on vague hints of a tie-up, firmed to 39p as the story shifted slightly.

Asset swaps

Dealers said yesterday that the company was in Texas discussing asset swaps in the Gulf of Mexico and Turkmenistan.

The strong market trend helped Colt Telecom regain most of Friday's sharp losses that saw it end the week as the worst performer. Yesterday's bounce helped the shares harden 57 or 5.32 per cent to £11.29.

Moody's said it had upgraded the senior unsecured debt ratings of Colt Telecom to B1 from B2.

BT whose favourable figures last week cheered the market continued to move strongly ahead. The shares rose another 27½ to £10.72 after trade of 17m. Lehman Brothers was said to have recently upgraded its recommendation from "neutral" to "outperform".

Shares in Whitbread jumped 32 to 885½p as analysts cast doubts on reports suggesting the hotels and drinks group was considering a £1.2bn bid for Greenalls Group, its smaller rival.

Analysts said such a bid from Whitbread was unlikely at the current Greenalls share price.

Scottish & Newcastle was another name mentioned as a possible suitor for Greenalls. The report saw the stock once again move near the top of the list of the market's bid targets and the shares rose 36½ or 10.74 per cent to 376½p, the best performer in the FTSE 250. S&N firmed 3½ to 679½p.

British Steel surrendered 3¾ to 125¾p in trade of 8m after Morgan Stanley Dean Witter was said to have downgraded its recommendation on the stock. The Morgan Stanley downgrade followed the stock's recent strong performance and fears about the company's possible involvement in the battle for control of Germany steelmaker Salzgitter.

RJB Mining fell 9 to 64½p as the company faced the risk of a miners' strike. The National Union of Mineworkers was due to start voting yesterday on whether to strike over a pay dispute.

Former stockmarket star British Biotech fell to an all-time low after a disappointing announcement concerning its oral anti-cancer agent Marimastat. Brokers said that the company, with just over £100 million in cash, had further to fall. Shares were down 4½ to 21½p.

Regional publisher Southnews rose 31 to 473½p on speculation of further sector consolidation. Analysts said the company was a potential bid target as it was currently rated at half the value of Portsmouth and Sunderland Newspapers, which received a fourth approach last week.

FT 30 INDEX

	Feb 15	Feb 12	Feb 11	Feb 10	Feb 9	Yr ago	*High	*Low
FT 30	3649.7	3629.3	3598.1	3540.1	3541.1	3459.5	4004.9	2790.6
Ord. div. yield	2.97	2.97	2.90	2.97	2.96	3.10	4.22	2.72
P/E ratio net	22.61	22.61	23.10	22.61	22.65	22.87	25.41	15.80
P/E ratio nil	22.52	22.52	23.01	22.52	22.56	N/A	25.19	15.71

FT 30 since compilation: high 4004.9 7/10/98; low 49.4 26/6/40. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3629.3	3638.3	3628.4	3632.6	3647.1	3647.9	3646.0	3651.5	3659.9	3618.9

STOCK MARKET TRADING DATA

[illegible]

FUTURES AND OPTIONS

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

FTSE GOLD MINES INDEX

[illegible]

FTSE Actuaries Share Indices — The UK Series

[illegible]

TRADING VOLUME

■ Major Stocks yesterday

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Feb 15) 1 € = 13.7603 Sch

BELGIUM/LUX (Feb 15) 1 € = 40.3399 Frs.

FINLAND (Feb 15) 1 € = 5.94573 Mka

FRANCE (Feb 15) 1 € = 6.55957 Frs.

GERMANY (Feb 15) 1 € = 1.95583 Dm.

IRELAND (Feb 15) 1 € = 0.78756 Punt

ITALY (Feb 15) 1 € = 1936.27000 Lire

NETHERLANDS (Feb 15) 1 € = 2.20371 Fls.

PORTUGAL (Feb 15) 1 € = 200.48200 Esc.

SPAIN (Feb 15) 1 € = 166.38600 Pts.

EUROPE (NON-EMU)

CZECH REP (Feb 15 / Koruna)

DENMARK (Feb 15 / Kr)

GREECE (Feb 15 / Drachma)

NORWAY (Feb 15 / Kroner)

POLAND (Feb 15 / Zloty)

SWEDEN (Feb 15 / Kronor)

SWITZERLAND (Feb 15 / Frs.)

TURKEY (Feb 15 / Tk Lira)

PACIFIC

JAPAN (Feb 15 / Yen)

HONG KONG (Feb 15 / H.K.$)

INDONESIA (Feb 15 / Rupiah)

MALAYSIA (Feb 12 / MYR)

NEW ZEALAND (Feb 15 / NZ $)

SINGAPORE (Feb 15 / S$)

AUSTRALIA (Feb 15 / Aus$)

SOUTH KOREA (Feb 12 / Won)

TAIWAN (Feb 10 / TW $)

THAILAND (Feb 15 / Baht)

AMERICAS

CANADA

TORONTO (Feb 15 / Can $)
4 pm close

MONTREAL (Feb 15 / Can $)
4 pm close

MEXICO (Feb 15 / Peso)
12.30 pm

AFRICA

SOUTH AFRICA (Feb 15 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY FEBRUARY 12 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY FEBRUARY 11 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	213.79	0.2	194.52	154.47	218.29	219.98	0.8	3.34	213.42	194.66	154.20	217.55	218.31	219.98	163.86	210.51
Austria (21)	174.78	0.1	159.02	126.28	157.47	157.47	0.3	2.11	174.56	159.21	126.12	157.00	157.00	258.73	165.27	197.82
Belgium (22)	398.28	0.9	362.38	287.77	351.33	351.33	1.1	1.92	394.64	359.95	285.13	347.53	347.53	446.95	273.48	274.13
Brazil (29)	107.31	-1.6	97.64	77.54	109.57	376.29	-1.0	6.17	109.01	99.43	78.76	111.12	380.24	269.34	89.32	235.19
Canada (113)	204.62	-1.5	186.18	147.85	208.93	221.32	-1.1	1.79	207.70	189.44	150.06	211.71	223.75	248.78	159.94	221.57
Denmark (34)	461.50	-1.4	419.90	333.45	471.21	413.79	-1.3	1.71	468.24	427.07	338.31	477.29	419.27	537.33	420.12	461.78
Finland (28)	608.75	1.9	553.88	439.84	673.54	673.54	2.1	1.66	597.29	544.78	431.55	659.74	659.74	661.25	322.57	322.57
France (74)	320.58	-0.3	291.68	231.63	292.49	292.49	-0.2	2.10	321.65	293.37	232.39	292.97	292.97	354.45	246.64	248.64
Germany (55)	262.48	0.8	238.82	189.65	236.65	236.65	1.0	1.39	260.40	237.51	188.14	234.38	234.38	325.61	226.35	243.53
Greece (36)	423.07	1.9	384.94	305.69	431.98	865.82	2.1	0.99	415.04	378.55	298.87	423.06	848.18	423.07	211.47	-
Hong Kong, China (66)	278.83	3.1	253.69	201.46	284.70	277.42	3.1	4.40	270.48	246.70	195.42	275.70	269.09	382.55	198.64	344.33
Indonesia (24)	48.69	-0.6	44.30	35.18	49.71	259.85	-0.5	1.18	48.92	44.62	35.35	49.87	261.11	64.52	19.04	50.46
Ireland (14)	548.49	2.6	499.05	396.30	539.71	539.71	2.8	1.77	534.70	487.69	386.32	525.25	525.25	605.85	396.15	444.35
Italy (53)	164.66	0.9	149.81	118.97	211.12	211.12	1.1	1.47	163.19	148.84	117.91	208.89	208.89	192.64	128.68	134.41
Japan (445)	99.44	0.6	90.48	71.85	101.54	71.85	0.6	1.04	98.83	90.14	71.40	100.74	71.40	109.33	76.83	109.33
Mexico (29)	1186.07	0.1	1079.16	856.98	1211.04	12929.00	-0.2	1.98	1185.31	1081.10	856.39	1208.21	12958.28	1733.73	787.15	1575.57
Netherlands (26)	490.48	0.9	446.27	354.39	437.43	437.43	1.1	2.17	485.86	443.14	351.03	432.57	432.57	562.73	394.92	421.35
New Zealand (16)	65.75	1.4	59.82	47.51	67.13	63.56	2.0	4.69	64.87	59.16	46.87	66.12	62.33	77.84	45.68	77.83
Norway (37)	236.43	0.7	215.12	170.83	241.41	244.63	0.5	2.35	234.71	214.07	169.58	239.24	243.50	357.71	181.86	297.25
Philippines (22)	84.91	1.1	77.26	61.35	86.70	162.91	1.3	1.00	83.96	76.57	60.66	85.58	160.87	106.98	42.48	92.26
Portugal (18)	254.92	-0.7	231.94	184.19	310.17	310.17	-0.5	1.08	256.72	234.15	185.48	311.83	311.83	299.39	194.13	-
Singapore (40)	197.21	-0.3	179.43	142.49	201.36	153.68	-0.1	1.82	197.72	180.34	142.85	201.54	153.80	248.74	102.45	218.87
South Africa (38)	193.64	0.0	176.19	139.91	197.72	259.19	0.8	3.44	193.60	176.58	139.88	197.35	256.55	346.20	151.55	272.75
Spain (30)	381.53	0.5	347.14	275.67	428.43	428.43	0.7	1.89	379.65	346.27	274.30	423.61	423.61	435.19	290.81	300.54
Sweden (43)	522.64	0.8	475.53	377.63	533.64	610.97	0.8	1.90	518.53	472.95	374.64	528.55	605.36	628.19	379.18	493.31
Switzerland (30)	393.66	0.9	358.16	284.42	401.93	345.42	0.9	1.24	390.21	355.91	281.93	397.75	342.36	441.65	307.73	375.17
Thailand (31)	21.91	16.6	19.94	15.83	22.37	31.41	16.4	2.81	18.79	17.14	13.58	19.16	26.99	33.84	8.15	30.98
United Kingdom (201)	377.63	1.3	343.58	272.84	385.56	343.58	1.0	2.83	372.87	340.08	269.40	380.07	340.08	401.64	307.98	355.31
USA (613)	507.22	-1.9	461.50	366.48	517.90	507.22	-1.9	1.29	517.24	471.77	373.71	527.23	517.24	527.72	390.12	418.34
Americas (784)	450.32	-1.9	409.63	325.30	459.69	382.14	-1.9	1.33	458.98	418.63	331.62	467.85	389.52	467.90	347.59	379.00
Europe (723)	350.42	0.8	318.84	253.19	357.80	326.06	0.8	2.08	347.50	316.95	251.07	354.22	323.32	386.24	282.63	309.32
Euroblec (342)	100.67	0.6	91.60	72.74	98.24	98.24	0.8	1.78	100.08	91.28	72.31	97.50	97.50	113.92	81.53	-
Nordic (143)	500.49	0.7	455.37	361.62	511.02	506.29	0.8	1.84	496.84	453.16	358.97	506.44	502.30	555.97	360.04	433.34
Pacific Basin (721)	106.94	0.8	97.30	77.27	109.19	80.14	0.9	1.57	106.11	96.78	76.67	108.16	79.46	118.46	82.88	118.46
Euro-Pacific (1444)	208.12	0.8	189.36	150.38	212.50	172.52	0.8	1.93	206.42	188.27	149.14	210.41	171.06	221.79	166.00	198.08
North America (726)	486.77	-1.9	442.89	351.70	497.01	487.49	-1.9	1.31	496.38	452.67	358.58	505.99	496.97	506.43	374.92	405.78
Europe Ex. UK (522)	328.21	0.6	295.89	234.97	332.05	307.74	0.8	1.70	323.19	294.77	233.50	329.43	305.43	366.32	260.93	277.67
Europe Ex. Eurobloc (381)	96.33	1.1	87.65	69.60	98.36	96.90	0.9	2.39	95.28	86.91	68.84	97.12	96.00	103.93	77.40	-
Europe Ex. UK Ex Eurobloc (180)	96.59	0.7	87.89	69.79	98.63	93.96	0.8	1.45	95.88	87.45	69.28	97.73	93.25	109.21	75.16	-
Pacific Ex. Japan (276)	179.95	1.4	163.73	130.02	183.74	181.64	1.6	3.60	177.42	161.82	128.19	180.85	178.51	216.04	128.26	205.22
World Ex. Eurobloc (1921)	104.53	-1.0	95.11	75.53	106.73	103.13	-1.0	1.57	105.55	96.27	76.26	107.59	104.14	109.05	83.09	-
World Ex. US (1650)	207.51	0.7	188.80	149.93	211.88	177.49	0.8	1.95	206.06	187.94	148.88	210.04	176.17	221.91	165.95	201.24
World Ex. UK (2062)	297.05	-0.9	270.27	214.63	303.30	265.79	-0.9	1.46	299.98	273.53	216.68	305.89	268.20	311.48	236.11	263.15
World Ex. Japan (1818)	405.78	-0.9	369.21	293.20	414.33	397.93	-0.8	1.57	409.37	373.38	295.77	417.26	401.34	427.99	320.58	352.12
The World Index (2263)	304.00	-0.7	276.60	219.65	310.40	272.94	-0.7	1.80	306.22	279.30	221.25	312.14	274.88	318.51	242.36	270.97

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Emerging markets:

IFC investable indices

Dollar terms

Feb 12 Market		Day's chg %	% Chg since 31/12/98
Latin America			
Argentina	750.02	-1.1	-6.0
Brazil	223.15	-0.7	-18.9
Chile	465.06	-0.3	+3.0
Colombia[1]	371.10	+1.6	-15.5
Mexico	501.66	+0.1	+4.2
Peru[2]	133.04	-0.3	-1.0
Venezuela[3]	373.35	-1.5	-17.6
East Asia			
China[4]	23.05	+1.9	-12.0
India[7]	70.01	+0.9	+9.0
Indonesia[3]	22.71	-0.7	-6.2
Korea[5]	51.76	+5.5	-2.4
Malaysia	88.91	+1.7	+0.4
Pakistan[6]	82.38	+3.0	-12.9
Philippines	117.01	+1.1	-4.9
Sri Lanka[10]	73.43	+0.2	-10.8
Taiwan, China[8]	108.06		-6.7
Thailand	60.10	+10.6	-4.9
Europe			
Czech Rep	44.17	-0.2	-13.0
Greece	757.79	+2.1	+22.4
Hungary[9]	288.46	+0.2	+2.8
Poland[9]	548.84	+2.1	+4.8
Portugal	289.12	-0.7	-1.0
Russia	27.99	-4.4	+19.4
Slovakia	44.77	-1.7	+2.7
Turkey[11]	161.67	+0.6	+10.5
Mideast/Africa			
Egypt	75.05	+0.1	+16.4
Israel	101.12	+0.3	-1.1
Jordan	227.02		+4.8
Morocco	172.53	+0.1	+2.9
S Africa[15]	133.77	+0.2	+6.8
Zimbabwe[16]	104.56	+1.0	-0.7
Regions			
Composite	186.58	+0.6	-0.1
Latin America	395.46	-0.4	-5.8
Asia	102.51	+2.8	-4.2
EMEA	123.54	+0.5	+8.1
Europe	165.02	+0.6	+10.2
Eastn Europe	60.89	-0.4	+4.7
ME & Africa	58.66	+0.2	+5.7
Comp + Malay	189.40	+0.9	-0.1
Asia + Malay	104.85	+2.6	-3.3

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Mar 4 1991; (7)Nov 5 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993

Latest indices were unavailable for this edition.

Feb 12/closed Feb 15

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Financial Times Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

Dealings suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Feb 12	Feb 11	Feb 10	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9274.89	9363.46	9177.31	9643.32 (8/1/99)	7539.07 (31/8/98)	9643.32 (8/1/99)	41.22 (8/7/32)
Home Bonds	105.34	105.84	105.83	107.17 (9/12/98)	104.42 (11/5/98)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3096.89	3161.76	3119.20	3686.02 (16/4/98)	2345.00 (8/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	286.44	291.47	293.96	320.51 (8/10/98)	262.68 (8/1/98)	320.51 (8/10/98)	18.53 (8/7/32)

DJ Ind. Day's high 9437.35 (9423.18) Low 9161.35 (9088.48) (Theoretical) Day's high 9389.98 (9363.49) Low 9228.03 (9143.39) (Actual)

Standard and Poors	Feb 12	Feb 11	Feb 10	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Composite‡	1230.13	1254.04	1223.55	1279.64 (29/1/99)	927.69 (9/1/98)	1279.64 (29/1/99)	4.40 (1/6/32)
Industrials♥	1492.39	1521.87	1486.77	1551.65 (29/1/99)	1077.40 (8/1/98)	1551.65 (29/1/99)	3.52 (30/6/32)
Financial♥	127.27	129.60	124.78	147.69 (14/7/98)	95.90 (8/10/98)	147.69 (14/7/98)	7.18 (4/8/74)
Others							
NYSE Comp.	581.46	589.74	578.61	611.86 (8/1/99)	477.20 (8/10/98)	611.86 (8/1/99)	4.64 (25/4/42)
Amex Comp	698.12	699.41	698.82	763.67 (22/4/98)	563.76 (8/10/98)	763.87 (22/4/98)	524.20 (16/7/96)
NASDAQ Cmp	2321.89	2405.65	2309.50	2510.09 (1/2/99)	1419.12 (8/10/98)	2510.09 (1/2/99)	54.87 (8/10/74)
Russell 2000	398.44	406.16	397.98	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	123.56 (7/12/93)

RATIOS

	Feb 12	Feb 5	Jan 29	Year ago
Dow Jones Ind. Div. Yield	1.66	1.65	1.64	1.68
	Feb 10	Feb 3	Jan 27	Year ago
S & P Ind. Div. yield	1.15	1.10	1.12	1.42
S & P Ind. P/E ratio	38.00	39.55	38.57	27.81

US DATA

MARKET ACTIVITY

● Volume (million)	Feb 12	Feb 11	Feb 10
NYSE	681.550	815.880	722.883
Amex	25.651	30.223	25.851
NASDAQ	842.306	869.307	920.449

– NYSE	Feb 12	Feb 11	Feb 10
Issues Traded	3,537	3,556	3,540
Rises	868	1,781	1,170
Falls	2,233	1,180	1,833
Unchanged	436	595	537
New Highs	78	21	20
New Lows	182	104	103

NYSE TRADING ACTIVITY

Volume : 681,550,000

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Compaq	12,951,300	43	–1⅜
PhilMorr	11,117,000	40¼	+⅛
Cendant	8,618,500	17	–1⅛
AmOnLine	7,895,400	158¾	–6⅝
Citigrp	7,138,200	51⅞	–1⅞
Disney	6,615,300	35¾	+⅜
Enron	5,831,700	62¾	
LucentTch	5,695,600	98¾	–4⅜
HewlPac	5,118,800	70¾	+1¼
Exxon	5,100,100	69¼	–⅞

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Bclays	102	+8⅝	+9.6
Relco	22⅛	+1⅝	+8.1
Newmnts	18¾	+1⅜	+8.9
PicrDan	12¾	+⅞	+8.6
Downs			
Cascade	14	–2¼	–13.8
NewhMet	24⅝	–2⅜	–8.9
Valhi Inc	11	–1⅛	–8.8
St2000	70⅛	–6⅛	–8.0

NASDAQ TRADING ACTIVITY

Volume :842,308,000

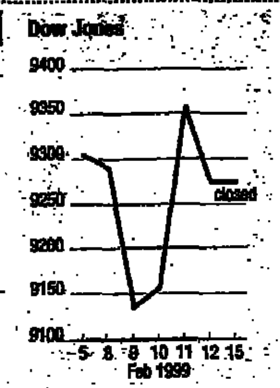
ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
DellCmp	68,364,500	89⅞	–12
Intel	18,247,800	126⅛	–6¼
MCIWcm	16,231,200	79⅛	–1
CiscoSys	16,157,700	99¾	–5⅝
Micsft	15,590,400	157¼	–5
JD Edwds	12,283,200	15	–3⅞
Oracle	10,805,800	58⅞	–2⅞
ApplMat	9,773,400	56⅞	–⅞
SunMic	9,675,400	100¾	–4⅛
3Com	8,874,700	32¼	–1⅛

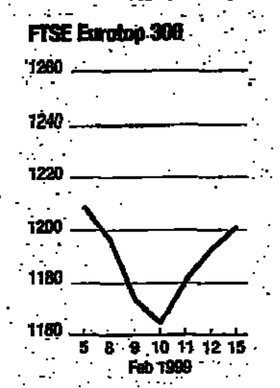
BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
CountryHlt	11⅞	+1⅜	+13.8
Energis	125	+14	+12.6
Amkind	15⅛	+1½	+11.0
GalileoTch	20	+1⅞	+10.3
Downs			
Guitar Ctr	17⅜	–4⅞	–21.8
JD Edwds	15	–3⅞	–20.5
CertreHlth	23⅛	–4⅛	–16.1
InvTech	46	–7⅛	–13.8

Dow Jones



FTSE Eurotop 300



JAPAN

	Feb 15	Feb 12	Feb 11	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Nikkei 225	14054.72	13973.69	(c)	17264.3	12880	38915.9	85.25

Day's high: 14101.22. Day's low: 14003.23.

TOKYO TRADING ACTIVITY

Volume : 338,750,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Sekura	8,363,000	260	+8
SumTrB	7,613,000	346	+3
SowaBk	7,175,000	1135	+5
Nomura	6,791,000	910	–7
MicsMt	6,631,000	425	+14
MbChem	6,290,000	291	–1
DaiwB	5,525,000	716	+23
STokM	5,505,000	1370	+17
SumMS	4,708,000	112	–4
Hitachi	4,533,000	748	+7

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
ToyoTB	343	+31	+9.9
Iseki	119	+10	+9.2
DNPink	315	+26	+9.0
Renown	69	+5	+7.8
NpYusn	375	+26	+7.4
DaileKu	644	+43	+7.2
KawtKin	157	+10	+6.8
Downs			
DITelC	984	–72	–6.8

FRANCE

	Feb 15	Feb 12	Feb 11	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
CAC 40	4065.19	4060.35	4072.34	4388.48	2882.54	4388.48	964.61

Day's high: 4079.02. Day's low: 4005.82.

PARIS TRADING ACTIVITY

Volume : 431,644,790

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
FrTele	1,048,344	80.5	+0.5
RhonPA	1,016,895	43	+0.81
MchlnB	935,471	40.8	+1.1
Paribas	729,974	85	+1
Usinor	859,002	12.14	+0.04
TotalB	571,295	93	+2
Axa	518,896	120.4	+1
Renault	455,272	44.01	–0.49
Alcatel	452,616	94	–1
BNP	443,002	73	–1.3

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Eramet	35.2	+3.2	+10.0
Ciments	53	+3.05	+6.1
GpPari	66	+3.2	+5.1
LVMH	213.5	+7.5	+3.6
Downs			
BIC	52.25	–3.05	–5.5
Eiffge	61.8	–3.1	–4.8
CapGem	152.9	–7.1	–4.4
Alstom	23.1	–0.95	–4.0

GERMANY

	Feb 15	Feb 12	Feb 11	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DAX	4879.55	4888.74	4839.33	6171.43	3896.08	6171.43	931.18

Day's high: 4879.55. Day's low: 4818.13.

FRANKFURT TRADING ACTIVITY

Volume : (n)

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Cmrzbk	334,890	26.05	–0.45
Bayer	309,203	30.9	
Lufthn	291,319	18.9	–0.05
DrsdrCh	224,723	85.2	+1.15
Veba	162,129	50.4	+0.5
Contntl	158,860	25.2	–0.85
Mtallg	158,389	17.4	+0.25
DrsdBk	155,120	32.7	–1.2
Dt Bk	152,775	46.3	–0.85
BASF	147,812	30.55	–0.05

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Douglis	46.9	+4.9	+11.7
DegHls	36.5	+3.7	+11.3
HorBank	25.5	+2.5	+10.9
GEHE	54.8	+3.8	+7.5
Hochtf	31	+2.01	+6.9
Downs			
ColPrf	68	–6.9	–9.3
ColKnz	85	–5	–5.6
HanvRk	81	–4.5	–5.3

UK

	Feb 15	Feb 12	Feb 11	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
FTSE 100	5923.2	5950.7	5888.5	6179	4648.7	6179	986.9

Day's high: 6033.2. Day's low: 5924.0.

LONDON TRADING ACTIVITY

Volume : 747,400,800

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
LucasVarity	19,780,500	280¾	+2
Br Telecom	17,718,920	1072	+27½
Rage Softw	13,700,610	15¾	+¼
Shell	12,738,430	396½	+4
Lloyds TSB	12,331,960	882½	+30
BP Amoco	10,917,480	867½	+14
BTR Siebe	10,098,820	244½	+8¾
Indl Control	10,081,850	12¾	
Bec Boutique	9,992,611	88½	+1½
Natl Power	6,784,025	536½	+8½

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Havelock Euro	69½	+29	+71.6
Moorfield	19½	+4½	+30
Tie Rack	38	+8	+26.6
Syst Int Res	28¼	+6¼	+28.4
Utd Carriers	30½	+6	+24.5
Downs			
Greenwich Hse	21½	–9	–29.5
Haden Mac	39½	–12	–23.3
Sherwood	31	–8	–20.5

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	1238.50	1238.30	+12.90	1253.20	1228.00	97,277	389,752
Jun	1251.90	1249.90	+13.00	1262.90	1247.30	285	11,186
Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
Mar	14030.0	14030.0	+60.0	14120.0	13990.0	18,830	195,112
Jun	13950.0	13910.0	+70.0	14000.0	13900.0	40	35,771

Open interest figures for previous day.

CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Feb	4020.0	4076.0	+27.0	4091.0	4005.0	37,886	115,264
Mar	4035.0	4083.5	+27.0	4093.5	4018.0	3,101	621,023
DAX							
Mar	4871.0	4891.0	–5.0	4898.0	4810.0	29,222	205,502
Jun	4895.0	4918.0	–5.0	4910.0	4850.0	161	64,682

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Feb	707.00	715.50	+2.00	715.50	702.50	10,354	136,616
Mar	705.00	713.00	-	713.00	702.25	1,048	2,765
EUREX							
Mar	6964.0	7003.0	+15.0	7015.0	6940.0	13,458	131,221
Jun	6904.0	6904.0	–26.0	6904.0	6904.0	2	4,138

WORLD MARKETS AT A GLANCE

Country	Index	Feb 15	Feb 12	Feb 11	1998/99 High	1998/99 Low	Yield	P/E
[illegible]								

THE NASDAQ-AMEX MARKET GROUP

Feb 12/closed Feb 15

[illegible]

AMEX

Feb 12/closed Feb 15

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Focus on cyclicals as bourses take a break

WORLD OVERVIEW

Europe provided the main interest as investor sentiment improved after an uncertain start, writes Michael Peel.

But trading was mostly lacklustre worldwide, with New York closed for the day and Asia gearing up for the start of Chinese New Year celebrations today.

Many Asian markets had full or partial holidays to mark the new year. Those that were open moved little, with Tokyo closing a modest *0.6 per cent higher after* investors reacted positively to a plan to recapitalise commercial banks.

Attention in Europe focused on Frankfurt, which finished flat after early *losses on worries about the* possibility of a strike by members of the IG Metall union. BMW prospered, ending almost 3 per cent higher on reports that it might link up with Volkswagen or be taken over by General Motors.

London finished more than 1 per cent higher as the financial sector benefited from the strong results announced by Lloyds TSB on Friday. Banks also did well in Spain and Italy, where merger speculation provided the driving force.

But an increasing number of strategists are advising investors to turn away from the financial sector and traditional growth stocks and look instead towards cyclicals.

The more aggressive observers think high-multiple defensive stocks such as pharmaceuticals and technology companies are overrated compared with some out-of-favour industrial businesses.

In baskets of European stocks monitored by Lehman Brothers, cyclicals are up 4 per cent this year, while financials have fallen 1 per cent and defensive stocks have declined 2 per cent.

Strategists who favour cyclicals say the stocks could be further buoyed this year by restructuring, falling interest rates and high levels of consumer confidence.

Investors who put their money in ultra-defensive stocks are effectively betting that there will be a marked economic downturn this year.

"We are looking at a market where fundamentally you have two choices," says Mike Young, executive director of European strategy at Goldman Sachs. "You can take a value risk on those stocks that are on huge price/earnings ratios. Or you can take an earnings risk on stocks where the earnings outlook is uncertain but the stock looks cheap."

Other brokers highlight the superior value of cyclical stocks that could become involved in merger and acquisition activity this year.

Limited interest stalls Toronto

AMERICAS

Shares in TORONTO moved lower in early trading. Dealers said investor interest was limited, although there were steady bullion-led gains among leading gold stocks.

Barrick Gold improved 30 cents to C$29.40 while Placer *Dome put on 20 cents at* C$18.20, thanks mostly to a bounce for the bullion price, which added 90 cents an ounce at $290.5 at the London fix.

Banks were mixed, with Bank of Montreal off 25 cents at C$62.70, Royal Bank of Canada down 20 cents at C$75.80, but Toronto-*Dominion meeting* with demand and gaining 60 cents to C$61.85.

In the broader market, TransCanada Pipelines was well dealt, adding 20 cents at C$21.10. T. Eaton, one of Canada's oldest stores groups, fell 55 cents to a record low of C$4.95 after last week's profits warning.

At the noon calculation, the benchmark 300 composite index was down 18.29 at 6,415.40.

MEXICO CITY continued to slip in early trading as the profit-taking that pushed *share prices lower on Friday* remained the main focal point.

However, trading volumes were low and according to brokers actual selling had been relatively light. "With Wall Street out of action, most investors are taking the day off," said one trader.

At midsession, the benchmark IPC index was down 6.66 at 4,094.5.

BUENOS AIRES gained ground despite continued worries about the forthcoming results season, after oil group YPF posted a bleak set of figures last week, casting a cloud over broad earnings expectations.

At midsession, the Merval index was modestly ahead, up 1.77 at 389.15.

SANTIAGO lost ground in early trading. The IPSA index was 0.28 lower at 110.31 in dull volumes at midsession.

Wall Street was closed for Presidents' day

Strong dollar helps Dax recoup losses

EUROPE

Helped by a positive session for the dollar, FRANKFURT pared early losses in a low-volume session to close with the Xetra Dax index off 7.79 at 4,888.95.

Volumes were dull, partly reflecting the absence of Wall Street, closed for a holiday, and shares moved steadily lower through the morning as the news from the IG Metall negotiating table suggested that positions in the German metal works dispute were hardening.

But by early afternoon the investor mood had lightened and, with the dollar forging ahead in the foreign exchanges, the buyers stepped back into the market.

At the finish the Dax was at its best of the session and 81 points above the day's low.

BMW stayed in demand on another rumour-packed day. Last week's talk of a takeover approach from Volkswagen gave way to speculation about an alliance with General Motors of the US. The shares ended €21.7 higher at €745.70.

Motor sector sentiment was also helped by an upbeat trading statement from DaimlerChrysler, *which improved €1 to €85.* Volkswagen added 98 cents at €66.48.

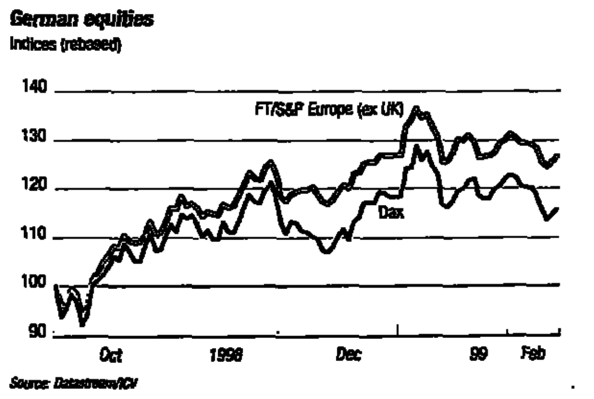
Retailer Karstadt was also firm, adding €10 at €344, while telecoms leader Mannesmann rose €2.50 to €116.

On the downside, Deutsche Bank, which reports annual results tomorrow, shed 73 cents to €46.76 on what was generally a weak day for financials. Munich Re retreated €5.40 to €187.10.

PARIS ended little changed with investors taking selective positions in the absence of New York.

The FTSE Eurotop 300 index rose 8.14 or 0.68 per cent to 1,201.04. See Euro Prices page.

German equities
Indices (rebased)



Source: Datastream/ICV

CCF, which reports 1998 results on Thursday, edged €1.45 higher to €75.95 amid talks of a possible merger with Dutch bank ING. Mutual insurance group Mutuelles du Mans is said to be ready to sell its 7.8 per cent stake in CCF.

Cigarette producer Seita took a plunge in early trad*ing before ending in the* black. Its shares, which rose 7 per cent on Friday following strong 1998 results, shed nearly 5 per cent after a health authority in Britanny said it would launch a US-style class action against Seita.

It later recovered, closing 10 cents higher to €55, as investors played down the short-term impact of the news.

Eramet continued its strong rally, reaching a seven-month high after the government published privatisa*tion plans for the mining* group last week. The stock added €3.20 or 10 per cent to €35.20.

Software company Cap Gemini was off €7.10 or 4.4 per cent to €152.90, following a tumble by US high-tech shares on Friday.

The CAC-40 index closed 4.83 higher to 4,065.19.

AMSTERDAM ended virtually all-square with solid gains for Hoogovens and KNP offset by a shakeout at Philips.

Hoogovens added 80 cents at €29.15 amid talk that steel prices in Europe were showing signs of bottoming out. Telecoms leader KPN extended its recent good run, gaining €1.20 to €44.75.

Philips took its cue from Friday's weakness of US tech stocks, dipping €1.65 or 2.6 per cent to €61.35.

Foods group Wessanan came off 25 cents or 2.5 per *cent at €9.85.*

Ahold shed 60 cents to €34.55 on rumours that the retailer had a UK supermarkets chain in its sights.

ING added 25 cents to €49.30 after denying rumours that it was making overtures to French bank CCF.

At the close, the AEX index was off 0.02 at 523.31.

ZURICH drifted higher in subdued volumes with the SMI index adding 25.4 at 6,988.5, mostly on the back of steady gains among blue chips.

Clariant rose 2.5 per cent, *adding SFr18 at SFr739. In* banks, UBS improved SFr3.50 to SFr448, while foods leader Nestlé put on SFr32 to SFr2,542.

Among lesser caps, there were mixed signals on the results front. Bobst shed SFr20 to SFr1,605 after its sales disappointed brokers, while Gretag Imaging gained SFr3 to SFr117 following news of a 27 per cent advance in sales for 1998.

STOCKHOLM turned around intra-day lows to end virtually flat, with the general index up 8.79 to 3,274.97.

Volvo lost ground after it declined to comment on reports that it was considering a bid for truck maker Navistar. But Deutsche Bank upgraded its recommendation for the company, which, it said, was trading at a discount to rival Scania. The stock eased SKr2 to SKr219.50.

Drugs maker Astra, which plans to merge with Britain's Zeneca, shed SKr1.50 to SKr155.50 after Zeneca said the US competition authority had asked for more information about the merger.

MADRID ended 1.45 per cent higher, propped up by advances in the financial sector. The general index closed 12.54 to 877.40 in thin trading.

Bank stocks staged a healthy rally, adding between 2 and 4 per cent amid renewed speculations of restructuring in the sec*tor. BBV was up 52 cents to* €13.39 while Banco Santander added 55 cents to €17.30. Banco Popular, seen as one of the main bid targets, gained €1.45 to €61.55.

The day's best performer was hotel group Sol Melia, up €2.35 or 7.4 per cent to €34 as the company continued to buy back shares in its *Latin American unit MIA as* part of a plan to merge it back into its core business. The deadline for swapping MIA shares for Sol shares is next Monday.

MILAN rebounded from intra-day lows to end 1.3 per cent higher in low volumes. The Mibtel index added 303 to 23,505.

There was particular strength in the banking sector. Unicredito gained 21 cents to €4.68, while BNL rose 10 cents to €2.78 and Banca di Roma added 3 cents to €1.29.

The star of the day was Intesa, up 30 cents or 9.7 per cent to €4.86, on positive reaction about its forthcoming capital increase.

But news of a particular increase by Banco Popolare Commercio e Industria sent the share €1.27 lower to €19.06 as investors priced in the dilutive effect of the rights issue.

ATHENS punched to a record high as a number of industrial sectors, notably construction, attempted to catch up with the recent strong gains among bank shares. Building shares gained 4.5 per cent, while the banks sector index added 1 per cent.

Brokers described trading volume as heavy with turnover rising to Dr161bn. They said momentum was visibly upbeat. Rising shares outpaced fallers by 213 to 71. The general index ended up *74.09 or 2.2 per cent higher at* 3,466.95.

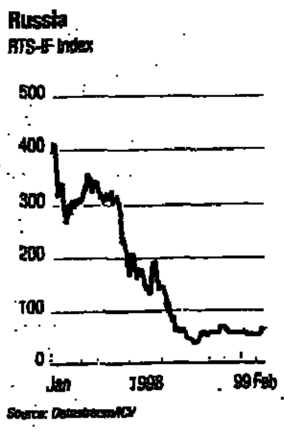
Written and edited by Jeffrey Brown, Bertrand Benoit, Paul Gregan and Nicola Wilson

EMERGING MARKET FOCUS

Russia revived by restructuring

Russia's equity market, *devastated last year by the* devaluation of the rouble and default on its domestic debt, has been showing signs of life. The RTS-IF index has climbed 16 per cent this month on what – by Moscow standards – are big volumes of between $5m to $10m a day.

Russia
RTS-IF index



Source: Datastream/ICV

Some investors believe this is the start of a recovery, as has already occurred in several of the Asian markets. But there is a short-term factor at play: the proposed restructuring of the Russian government's frozen *Treasury-bill (GKO) market.*

The government hopes to finalise terms for restructuring this week, but the likelihood is that creditors will receive 10 per cent of their reduced capital in cash and 90 per cent in longer-term, rouble-denominated assets. The estimated value of this restructured debt is esti*mated at between 3 cents* and 5 cents on the dollar.

David Aserkoff, an emerging market equity analyst at Credit Suisse First Boston, suggests that about $200m in cash will be looking for a home following the restructuring of the GKO market.

The government is likely to insist creditors keep this *money in roubles to prevent* the currency from crashing. The market assumes that a lot of these "restricted roubles" will move into the equity market.

This money represents about 2 per cent of the total value of Russian equities – or, until recently, about six month's trading volume on the RTS-IF index: hence the rise.

The trouble is that the proposed restructuring scheme looks problematic and seems certain to be modified. Otherwise, investors could sim*ply buy equities with their* "restricted roubles" and then sell the shares a few days later to repatriate their hard currency. If the government tries to prevent the fast sale of equities, it could lead to the emergence of a two-tier stock market.

Mr Aserkoff believes the GKO restructuring will probably be changed to prevent such an outcome – and he points out that all previous modifications to restructuring plans have been to the detriment of foreign bondholders. He is therefore advising equity investors to sell into this speculative rally.

There appear to be few other reasons to buy Russian shares. The government is still struggling to devise an economic programme coherent enough to win the backing of the International Monetary Fund. And little has been done to rectify Russia's appalling corporate governance regime.

Bill Browder, who runs Hermitage Capital Management, one of the biggest fund management groups still active in Russia, says the better-run oil companies may appear very cheap on a fundamental basis but he is not forecasting much of a revaluation.

"Anyone putting money into Russia right now is gambling rather than investing. Having said that, the odds are in your favour. The downside is limited to 100 per cent, but the upside is pretty much unlimited."

John Thornhill

Johannesburg edges lower ahead of budget

SOUTH AFRICA

Shares in Johannesburg edged lower as investors opted to remain on the sidelines ahead of *tomorrow's budget.*

The all share index was off 30.4 at 5,901.5 at the close, after a day of subdued volumes. Financials shed 0.9 per cent at 9,087.5, while industrials gave up 0.3 per cent at 6,705.6.

Nampak was a rare firm *feature. The packaging* group jumped 65 cents or 6.8 per cent to R10.25 after its link with Crown Cork, the US packaging supplier, was given the green light by the South African competition regulator.

Golds revived modestly *thanks to a better day for* the bullion price. The sector index ticked up 1.1 at 904.7.

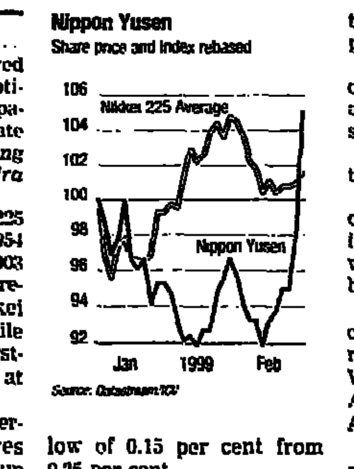
Banking hopes brighten Tokyo

ASIA PACIFIC

Shares in TOKYO improved for a third day amid optimism that struggling Japanese banks would accelerate *write-offs of non-performing* loans, writes *Alexandra Nusbaum in Tokyo.*

The benchmark Nikkei 225 Average rose 81.03 to 14,054 after trading between 14,003 and 14,101. The more representative weighted Nikkei 300 rose 1.27 to 218.39, while the Topix index of all first-section shares was up 5.49 at 1,059.02.

Nippon Yusen
Share price and index rebased



Source: Datastream/ICV

Trading volume was average, with 338m shares traded. Momentum was up as 659 issues advanced.

The banking sector rose 1.4 per cent on the hope that government funds would stabilise the financial system.

Sakura Bank, the most actively traded stock, rose 3.5 per cent or Y9 to Y260. Daiichi Kangyo rose 3.2 per cent or Y23 to Y716. Fuji Bank was up 1.9 per cent or Y9 to Y480.

According to local reports, Japan's larger banks are *expected to write off more* than Y9,000bn in non-performing loans for the year ending March 31.

The yield on the 10-year Japanese government bond rose 5.5 basis points to 2.135 on Friday's news that the Bank of Japan would lower its target for the overnight call rate to an historic low of 0.15 per cent from 0.25 per cent.

The rate-sensitive real estate sector climbed 1.99 per cent, led by Sumitomo Real Estate and Development, which rose 4.62 per cent or Y17 to Y368. Mitsui Fudosan was up 2.96 per cent or Y27 at Y911.

For the second consecutive day, Teikoku Hormone, a manufacturer of oral contraceptives, hit its maximum permitted daily rise, climbing Y100 or 11 per cent to *close at its high of Y900 after* the FT revealed last week that the government was likely to approve the license for low-dose birth-control pills.

Nippon Yusen, Japan's *largest shipping company,* jumped 6.9 per cent or Y26 to Y375 on heavy foreign buying, pushing the marine transportation sector up 5.9 per cent.

Fast Retailing rose 7.3 per cent or Y270 to Y3,680 after it announced an upward revision in earnings.

In Osaka, the OSE rose 62 to 14,815.

SYDNEY ended little changed after a strong showing by resource stocks, which rallied against the broad trend.

Despite mostly unhelpful commodity prices, Rio Tinto rose 36 cents to A$20.76 and WMC gained 9 cents to A$5.15. BHP added 1 cent to A$11.95.

Telecoms ran into heavy profit-taking. Telstra fell 20 cents to *A$8.40. The All Ordi*naries index closed off 11.7 at 2,877.8 after touching a low for the session of 2,863.5.

WELLINGTON gave up 21.83 or 1 per cent at 2,147.18 on the 40 capital index.

Brewer Lion Nathan was again actively traded, accounting for one-sixth of the day's turnover of NZ$644m. It improved 8 cents at NZ$4.70. NZ Telecom fell 16 cents to NZ$9.

BANGKOK partly reversed Friday's dramatic gains with the SET index easing 2.47 to 344.96. Turnover thinned to Bt3.73bn from the Bt5.9bn on Friday when the benchmark roared ahead by 10.8 per cent *following interest rate cuts* and hardening hopes for financial reform.

HONG KONG closed slightly lower, as investors squared positions after Friday's 3.1 per cent rise.

The Hang Seng index closed 23.03 off at 9,402.39, with the property sector up *0.6 per cent on news that the* government would resume land sales from April after a nine-month moratorium *aimed at stabilising prices.*

Henderson Land rose 60 cents to HK$33.40, while Cheung Kong ended 50 cents higher at HK$51, and Lai Sun Development gained 4 cents to 50 cents.

KARACHI closed sharply higher amid sustained buying in state-controlled Pakistan State Oil by local investors.

Shares in the company rose Rs4.50 to Rs64.75 following rumours that US oil giant Mobil might take it over when it is put up for sale by the government.

The *KSE-100* index closed 35.82 or 4.1 per cent higher to 910.72, also boosted by technical buying.

SINGAPORE gained 0.5 per cent, lifted by blue chips and banks after last week's sharp fall. The Straits Times index moved 6.30 ahead to 1,361.15.

Banks OCBC, up 5 cents to S$7.70, and OUB, up 15 cents to S$7.10, benefited from lower valuations after recent losses and news that the government was accelerating the liberalisation of the banking sector.